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World Business Newspaper — THURSDAY MAY 30 1996

Air France talking to four US airlines over an alliance

Air France is in discussions with at least four leading US airlines about a possible transatlantic alliance. The four are American Airlines - which is discussing what industry sources suggest may be a far-reaching accord with British Airways - United Airlines, Delta Air Lines and Continental Airlines. The French state-owned carrier, which is expected to be privatised late next year or early in 1998, recently revealed it had cut net losses before restructuring costs to less than FFr1.2bn ($230m) in 1995-96 - excluding its domestic partner, Air France Europe. Page 15; American airlines' integration approved, Page 19

French prepare for telecoms sale: The French cabinet has paved the way for the sale early next year of shares in France Télécom, the state-owned telecoms supplier valued at between FFr150bn ($25.3bn) and FFr200bn. Page 14

Eurotunnel, the Anglo-French operator of the Channel tunnel, announced it is to halve its standard return fare over the summer to £129 ($196), intensifying the price war on travel between France and England. Page 8; Lex, Page 14

Snecma head dismissed: The French government dismissed Bernard Dufour as head of its state-owned Snecma aero-engine company following his recent row with General Electric, Snecma's long-term US partner. Page 16

Greece cancels talks with Turkey: Greece called off talks with Turkey over disputes in the Aegean, claiming a meeting "would not be useful under present conditions". Page 2

Europe slips in global competition: Singapore, Hong Kong and New Zealand top the list of the world's most competitive countries, ahead of the US, while European Union countries are slipping behind many parts of the world, according to a report by Geneva-based World Economic Forum. Page 5

Albanian election criticised: The US joined criticism of Sunday's Albanian elections as calm returned to the capital Tirana after clashes between police and demonstrators. Page 2

Telecom Eireann, the Irish state-owned telecommunications company, reported a 137 per cent rise in profits for the year to I£116m ($180m) from I£49m in 1995. Page 17

Taiwan in $3.8bn China deal: Taiwan's biggest industrial group, Formosa Plastics, is believed to have finalised a deal to build a US$3.8bn thermal power plant in China, only two months after a tense military stand-off between Beijing and Taipei. Page 5

Japanese sales lift Mitsubishi: Cost-cutting and higher sales in the domestic market helped Mitsubishi Motors post record profits on a non-consolidated basis last year but consolidated profits fell from Y95.9bn ($913.33m) to Y71.9bn. Page 18

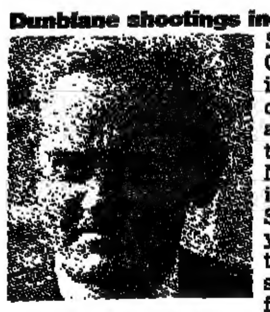
Red Cross calls for N Korean aid: The International Federation of the Red Cross and Red Crescent Societies appealed for $5.25m in aid to North Korea to prevent famine and help 130,000 victims of floods which swept the country last July and August.

Bosnian soldier charged with war crimes: The United Nations criminal tribunal for former Yugoslavia in The Hague charged Bosnian Serb army soldier Drazen Erdemovic with involvement in a massacre during the Serb takeover of the Moslem enclave of Srebrenica in July 1995.

UN honours Saro-Wiwa: Nigerian author and activist Ken Saro-Wiwa was posthumously elected to the United Nations Environment Programme's roll of honour for advancing the cause of environmental protection.

Pressure on cities: More than half the world's people will be living in urban areas in 10 years' time, with the biggest increase in developing countries, a United Nations report said.

Dunblane shootings inquiry begins:



Senior British judge Lord Cullen (left) began an inquiry into the shooting of 16 school children and a teacher in the Scottish town of Dunblane last November. The inquiry, in the Scottish city of Stirling, heard how 43-year-old Thomas Hamilton walked into a local school's gym and began firing indiscriminately. It is expected to last about two months.

STOCK MARKET INDICES

New York: lunchtime		
Dow Jones Ind Av	5,697.85	(-11.82)
NASDAQ Composite	1,232.4	(-3.9)
Europe and Far East		
CAC40	2,117.1	(-15.8)
DAX	2,551.45	(-6.85)
FT-SE 100	3,775.7	(+15.5)
Nikkei	22,021.5	(+76.97)

US LUNCHTIME RATES

Federal Funds	5¼%
3-mth Treas Bills: Yld	5.145%
Long Bond	89$\frac{1}{16}$
Yield	6.867%

OTHER RATES

UK: 3-mo Interbank	6$\frac{1}{16}$%	(same)
UK: 10 yr Gilt	95$\frac{1}{16}$	(96$\frac{3}{16}$)
France: 10 yr OAT	105.8	(105.68)
Germany: 10 yr Bund	98.75	(98.78)
Japan: 10 yr JGB	98.6734	(98.5671)

NORTH SEA OIL (Argus)

Brent Dated	$18.95	(19.54)

GOLD

New York: Comex		
(June)	$391.2	(391.8)
London:		
close	$391.3	(392.0)

DOLLAR

New York: lunchtime		
£	1.5245	
DM	1.54235	
FFr	5.22125	
SFr	1.2688	
Y	108.575	
London:		
£	1.5193	(1.5124)
DM	1.5453	(1.5483)
FFr	5.2292	(5.2366)
SFr	1.2723	(1.2743)
Y	108.745	(108.625)

STERLING

DM	2.3477	(2.3415)
Tokyo $ close:	Y 108.9	

Albania	LEK 220	Germany	DM4.00	Lithuania	Lts 15.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR12
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.65	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft230	Morocco	MDh16	Slovak Rp	Sk65
Cyprus	C£1.20	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kc60	India	Rs75	Nigeria	Naira90	Spain	Pta250
Denmark	DKr18	Israel	Shk7.90	Norway	NKr20.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.50	Switz	SFr3.70
Estonia	EKr 22	Japan	Y500	Pakistan	Rs40	Syria	S£65.00
Finland	FM15.50	Jordan	JD1.50	Poland	Zl 5.50	Tunisia	Din1.750
France	FFr11.50	Kuwait	Fils.850	Portugal (m'land)	Es240	Turkey	L80,000
		Lebanon	LL3,000			UAE	Dh12.00

EU chief's attack coincides with call for information over baby milk formula scare

Santer hits at UK disruption policy

By Caroline Southey in Brussels and James Harding and James Blitz in London

Mr Jacques Santer, president of the European Commission, yesterday turned on Britain for disrupting EU business, calling the UK government's week-old policy of non-co-operation "deplorable".

In the first public sign that Brussels is losing patience with the British government's behaviour in the EU, Mr Santer issued a hard-hitting statement, accusing Britain of "taking hostage" EU business not related to the beef crisis. Mr Santer's attack coincided with a demand that the UK furnish the Commission with information about baby milk formula, a request that could embarrass the government as it seeks to recover from the scare over potentially harmful chemicals in baby milk.

A third potential flashpoint between the UK government and the European Commission emerged when Mrs Emma Bonino, fisheries commissioner, warned that the EU might impose sanctions against countries failing to meet targets for reducing the size of their fishing fleets. Britain is one of the countries that is furthest behind its target.

Conservative Eurosceptics were furious at all three initiatives, claiming the Commission's action was "an assault on Westminster". But an EU official dismissed the notion that the Commission had co-ordinated an attack on the UK as "absurd". "In no way whatsoever are the three things linked," he said.

Mr Iain Duncan-Smith, a Eurosceptic, suggested that Mr Santer's comments were a cause for satisfaction as they showed the UK government's policy was working. "The government should realise that this non-co-operation policy - if it is to work - has to solicit this sort of response," he said.

Pro-European Tories were alarmed by Mr Santer's comments, fearing that Mr John Major, UK prime minister, would now be forced to persist with the non-co-operation policy longer than he had intended in order not to appear to have bowed to the Commission.

But Mr Roger Freeman, the cabinet minister co-ordinating the UK's non-co-operation strategy, insisted that the UK would not back down until EU colleagues accepted what the Commission had already accepted - that British beef is safe.

Although Mr Santer made no mention of taking legal action against Britain, EU officials refused to rule out the possibility, pointing out that the UK could be contravening Article 5 of the Treaty of Rome which says that members of the union "shall abstain from any measure which could jeopardise the attainment of the objectives of this Treaty".

Mr Santer's comments were prompted by the refusal of British ministers to endorse 12 agreements at council of minister meetings on Tuesday. "This attitude is not appropriate in a community based on the rule of law," Mr Santer said.

EU officials said the word "blackmail" was used frequently by Commissioners during the debate at yesterday's weekly meeting.

Scares spark calls for US-style food agency, Page 8

Early exit polls in Israel show Peres with slim lead

By Julian Ozanne in Jerusalem and David Gardner in Nazareth

Exit polls released after voting ended in Israel's crucial elections yesterday showed the result as being too close to call, although prime minister Mr Shimon Peres was predicted to have a narrow lead over Mr Benjamin Netanyahu, his rightwing rival.

An exit poll released by an Israeli television channel after polling stations closed suggested that Mr Peres, who campaigned on continuing peacemaking with Arab neighbours, had won 50.7 per cent of the vote compared to 49.3 per cent for Mr Netanyahu in the race for the premiership. A separate television poll also gave Mr Peres the same thin lead.

Pollsters immediately cautioned against the accuracy of the exit polls in such a closely fought race, and said the margin of error was too large for them to make an accurate forecast. They said a clear cut winner might not emerge for 48 hours.

The two exit polls also indicated that the Labour party of Mr Peres and the Likud bloc of Mr Netanyahu would lose seats in the separate race for the 120-member parliament to smaller parties, suggesting that each would face difficulty in negotiating a post-election coalition.

One of the television polls showed Labour taking 37 seats and Likud 31, while the other exit poll suggested that Labour would win 35 seats to 32 for Likud. Labour won 44 seats and Likud 40 at the last election in 1992.

"We are happy and it is significant because the peace process will continue. It won't be stopped," said Mr Efraphim Sneh, health minister in the present government, on hearing the exit poll results.

The US, western nations and Arab neighbours have backed Mr Peres and his party's drive to complete the peace process, now at a critical halfway mark.

The turnout of the 3.9m electorate was heavy, with the Central Elections Committee reporting that 71 per cent of those eligible had voted two hours before polling stations closed. It said this was about 3 per cent more than had cast ballots by the same time in the 1992 election. Total turnout in that vote was 77.4 per cent.

In the last hour of voting, Israeli Arab politicians in Nazareth made desperate efforts, appealing in mosques and on Jordanian television, to rouse 50,000 extra voters after a low turnout by the Arab community, which heavily supports Mr Peres.

Mr Peres said the election was the most important since the creation of Israel in 1948 because it presented voters with a clear choice about the future course of the country to 2000.

"It is clear choice of the future - between going forward to peace for the future generations or going to [Jewish] settlements, confrontation and violence," he said. "I hope the nation will choose peace."

On the campaign trail: Gerry Adams (right), president of Sinn Féin, the Irish Republican Army's political wing, and convicted IRA bomber Gerry Kelly canvassing in Belfast's New Lodge Road ahead of today's party elections in Northern Ireland Report, Page 14 — Picture PA

General Motors to open Asian base in Thailand

By Ted Bardacke in Bangkok

General Motors of the US will announce today that it has chosen Thailand over the Philippines as the location for its Asian motor vehicle manufacturing base.

The move ends an 18-month battle between the two countries for the opportunity to host the world's largest vehicle builder.

The $750m investment, expected to be accompanied by a further $250m from some of GM's suppliers, is the centrepiece of the company's aggressive new push into the east Asian vehicle market, where Japanese companies dominate.

GM hopes to double its share of the Asian market to 10 per cent by 2005, which will mean selling 1m more vehicles annually in the region than it does at present.

The Thailand plant, along with a planned facility in China, will produce the bulk of these cars for GM.

The US vehicle builder will become the 12th international company to produce vehicles in Thailand, which is already Asia's fourth largest vehicle market and manufacturer after Japan, China and South Korea.

Thai officials suggested GM's decision was "a natural one" and a "confirmation" that Thailand was south-east Asia's regional vehicle centre.

By the end of the decade, all the main Japanese and US vehicle makers are expected to be exporting from the country.

In the past year, Honda began production of its new "Asian car" in Thailand and Ford-Mazda announced a $500m plant there to produce pick-up trucks for the entire region. Ford has recently hinted it will expand the line to include passenger cars.

For the Philippines, GM's selection of Thailand is a heavy blow, especially to Mr Fidel Ramos, Philippine president, who personally and publicly lobbied Mr Jack Smith, GM chairman and chief executive, to set up his company's Asian base in the country.

The Philippines had offered GM special incentives, including free use of land, along with tax and tariff incentives, increased infrastructure spending on ports adjacent to the proposed factory site, and the funding of a $30m training school.

"Had they not offered so much, they wouldn't have been as close as they were," said a GM executive of the Philippines.

"There was a good business case for both locations," the

Continued on Page 14

Fraud probe opens into hidden losses at German group

By Michael Lindemann in Bonn

German state prosecutors opened fraud investigations yesterday against 15 executives and suppliers of Klöckner-Humboldt-Deutz, the German engineering and plant group which is threatened with bankruptcy after discovering hidden losses of DM650m ($428m).

Deutsche Bank, Germany's largest bank, which owns 47.7 per cent of the beleaguered company after spending DM500m to bail it out last year, said it was in talks with KHD's management and about 60 other banks owed money by the company.

Given that KHD's own equity has shrunk to DM298m following a series of restructurings in recent years, bank executives said the options were limited. "Either new capital is injected or KHD has to declare it's bankrupt," one said.

There was speculation last night that the banks would meet later this week, but executives suggested it might take longer to find a solution for KHD, which employs 9,425 people. The new losses mean the group's debt will increase from the present DM1bn to above DM1.5bn.

The investigation began when the company's administration officials filed documents to the state prosecutor's office after the losses were uncovered on Friday.

A KHD spokesman said what had happened appeared to amount to a "serious fraud" and to involve the "gross manipulation of the accounts with the aid of third parties outside the company".

If KHD, one of the best-known names in German engineering, does go bankrupt, it will be the second major blow for Germany's engineering industry in as many months.

Bremer Vulkan, Germany's biggest shipbuilding and engineering group, was declared bankrupt last month because - like KHD - it had been taking orders at prices which did not cover costs.

Ms Regine Appenrodt, a state prosecutor in Cologne where KHD has its headquarters, said the company had submitted documents showing it would lose DM650m from three plant contracts in Saudi Arabia.

The company said the contracts were worth between DM200m and DM500m each and that Mr Anton Schneider, chief executive, had flown to Saudi Arabia immediately after the losses had emerged in an effort to

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Bonn and Paris in plan to share military burden

By Michael Lindemann in Bonn

Germany is drawing up plans with France for closer military co-operation, Mr Volker Rühe, Germany's defence minister, said yesterday, following what he called France's "revolutionary" decision to change from a conscript army to a smaller professional force.

The plans – an outline of which will be be presented at the bi-annual Franco-German summit in Dijon on June 5 – would involve Germany agreeing to maintain Europe's largest conscript army while France's professional forces would shoulder the main responsibility for military intervention outside Europe.

Mr Rühe's comments come just weeks after President Jacques Chirac and Chancellor Helmut Kohl agreed to regular meetings to discuss closer defence co-operation.

Europe's two biggest armies have been co-operating for several years on projects to build attack helicopters and other weapons.

They have also created a joint unit, the Franco-German brigade, part of the five-nation Eurocorps, based in Strasbourg, eastern France.

Closer Franco-German co-operation gives Mr Rühe a timely justification for maintaining the 340,000-strong Bundeswehr which several defence analysts expected to have been cut to a smaller professional force because of savings in Germany's defence budget.

While German defence ministry officials emphasised that closer co-operation would only take place within the context of the North Atlantic Treaty Organisation, the latest Franco-German venture is bound to arouse some anxiety in the US and the UK, both of which view closer European co-operation as a potential threat to transatlantic military ties.

Mr Rühe was careful to stress that Germany and France were working on an "agreed plan", an apparent reference to Germany's concern that France had opted for a professional army earlier this year without consulting its most important ally.

The Bundeswehr, he said, could rapidly be doubled to 680,000 if it was maintained on a conscript basis.

As Europe's largest armed forces, the Bundeswehr could then make "a very specific contribution to European defence", Mr Rühe said.

To be able to participate in military operations outside Germany, Mr Rühe said the Bundeswehr would continue to professionalise its 50,000-strong "crisis reaction forces". But, he says, Germany "will never have to undertake foreign operations as much as France has to. That can never be the main purpose of the Bundeswehr."

Mr Rühe agreed last week to find savings worth just over DM1bn ($600m) from this year's defence budget but said yesterday it was still unclear how much would be cut from the 1997 budget. A final figure is expected before the cabinet approves the 1997 budget on July 10.

The defence minister added that the Germans were in "very intensive talks" with the French about the future of the Tiger attack helicopter, the NH-90 transport helicopter and the Future Large Aircraft, the new generation of military transport aircraft which, Mr Rühe said, up to eight European countries were interested in building.

Italian business fearful over loss of export competitiveness

Concern grows with rise of lira

By Robert Graham in Rome

Concern is growing in Italy about the rise in value of the lira in a wave of positive sentiment from the financial markets following the election of the new centre-left government.

The lira's sharp appreciation has provoked a growing debate over the parity at which the Italian currency should be fixed when it re-enters the European exchange rate mechanism.

In the five weeks since the Olive Tree alliance's election victory, the lira has gained almost 5 per cent against the D-Mark. It is now hovering around L1,005, close to the psychological barrier of L1,000. A year ago the lira was at L1,170 as the markets worried about political instability, poor public accounts and high inflation.

Mr Cesare Romiti, chairman of Fiat, the country's largest private group, this week warned a group of industrialists in Brescia that a rate of L1,000 to the D-Mark risked undermining the competitiveness of exports.

On Tuesday, Mr Romano Prodi, the prime minister said: "It's fine the markets have appreciated our victory, but it would be better if this process is not taken too far."

The Bank of Italy has maintained since 1994 that the lira was undervalued, but it has refused to indicate what sort of band within which it envisages the currency should move against the D-Mark.

Exporters themselves have conceded for some time that the lira should revalue once the political pictured cleared. Most of them also support its re-entry into the ERM. They are concerned like Mr Romiti, however, that a "realistic" parity be agreed.

Mr Prodi, after meeting Chancellor Helmut Kohl on Tuesday during his first foreign trip, adopted a pragmatic approach to re-entry. He envisaged the lira inside the ERM "by the end of the year", a slower and vaguer timetable than previously stated. "I don't want to give a date because when we re-enter it must be done in such a way that we do not leave [again]."

Yesterday, Mr Tancredo Bianchi, chairman of the Italian bankers' association, said a parity of around L1,010 against the German currency was right. But Mr Mario Noera, chief economist in Italy for Deutsche Bank, repeated his view that a more correct rate would be around L1,050.

Much depends upon the shape of the Prodi government's economic and financial policy being drawn up under Mr Carlo Azeglio Ciampi, the former premier and governor of the Bank of Italy who has the treasury and budget portfolios.

He plans to present by mid-June a mini-budget of at least L15,000bn ($9.6bn) in the context of a tough 1997 budget. That would be in advance of the EU's Florence summit and would be intended to show that Italy can come close to, if not meet, the main Maastricht criteria for monetary union.

This should enable the Bank of Italy to begin cutting the discount rate to bring the country more into line with the rest of Europe. Mr Antonio Fazio, its governor, is expected to make clear his views tomorrow in an annual message that is traditionally the year's most authoritative statement of policy.

Local tax revolt ready to boil over

By Andrew Hill in Milan

The new Italian government is facing a noisy challenge from entrepreneurs and shopkeepers in the prosperous north-east of the country who are threatening a tax revolt in protest at the heavy fiscal burden on their businesses.

Mr Vincenzo Visco, the finance minister, was last night due to meet the regional commander of the Guardia di Finanza, the country's tax police, and the head of the local revenue office, to discuss the situation.

LIFE, an independent group of entrepreneurs founded two years ago, claims to have rallied more than 3,000 members in the last few days in support of its attempts to reduce bureaucracy and taxes.

Official organisations, such as Confindustria, the Italian employers' federation, have responded cautiously to the anti-tax initiative. Mr Giorgio Fossa, Confindustria's new president, admits there is a problem, but has not condoned non-payment of taxes – one method of resistance advocated by LIFE's hardliners.

Finance ministry officials say they are surprised by the timing of the protest, given that the new government is pledged to simplify the tax system before the summer. The new law will include Mr Visco's plan to merge several local taxes into a single regional tax, introduced last year when he was a centre-left deputy.

LIFE [illegible] that small businesses have to pay taxes up to about 70 per cent of income – including VAT, social security and local taxes – and says members are fed up with being hounded as potential tax evaders. The finance ministry says the average combined rate of tax on businesses is about 50 per cent.

The organisation is planning to demonstrate in Mestre, near Venice, on June 10 against what it says is the unacceptably heavy-handed approach of tax police in checking up on local businesses.

What started as a local problem has quickly grown into a national campaign, with LIFE's founder Mr Fabio Padovan in constant demand for television and radio interviews. Mr Padovan is a former member of parliament for the federalist Northern League. LIFE itself claims to have no direct links with the party, even though its rhetoric is similar and the north-east is a League stronghold.

Mr Giorgio Vigni, a sales executive who is head of the Treviso provincial branch of the movement, said yesterday that LIFE aimed to become a non-party federal organisation, with branches across Italy. "We're appealing to all members of parliament from all parties," he said. "The boiler is under great pressure, and if the government doesn't release the pressure, it's going to explode."

New cuts demanded would leave many more fishermen permanently on the quayside Colin Beere

Bonino says some species face 'biological collapse'

Brussels calls for heavy cuts in EU fishing fleets

By Neil Buckley in Brussels and Alison Maitland in London

The European Commission yesterday called for cuts of up to 40 per cent in fishing fleets for certain types of fish. It also warned that sanctions might be imposed against countries such as Britain and the Netherlands if they fail to meet existing fleet reduction targets.

Mrs Emma Bonino, the fisheries commissioner, warned that entire species of fish faced "biological collapse" in some European waters without cuts of this size over the next six years.

Fishing groups warned that the targets would lead to the loss of thousands of jobs in fishing and associated industries. The European Association of Fish Producing Organisations said the measures were "based purely on biological arguments. They take no account of the economic consequences". The Save Britain's Fish campaign said the move would "harden our resolve to come out of the common fisheries policy."

Mrs Bonino said the reductions would be offset by support measures, such as early retirement and grant schemes totalling Ecu3.1bn ($3.8bn) in the first three years of a new six-year guidance programme for fisheries, starting next year. Funds for the following three years would be agreed in 1999.

She said refusal by the fishing sector to make sufficient cuts would threaten the industry's survival. "Whatever fishermen may say, they know perfectly well – better than we do – that a number of stocks are in a very dangerous state."

The overall targets must be agreed by fisheries ministers, before targets are negotiated with individual member states by the end of the year.

The cuts come on top of sizeable reductions in EU fishing fleets in the present five-year guidance programme which ends this year. Some states, among them Spain, Portugal and Denmark, have already exceeded reduction targets. Others, such as Britain and the Netherlands, are well behind.

Mrs Bonino warned that those failing to meet the targets by the end of 1996, could be taken to the European Court, which could block EU funds to member states failing to fulfil their obligations. Alternatively, these countries would have to shoulder a greater burden of capacity reductions in the new six-year plan.

The UK will be hard pressed to achieve the new cuts, having reduced its fleet by only 7 per cent instead of 19 per cent.

Two reports to the Commission, from independent experts and from its own scientific committee, have warned that many stocks are dangerously over-fished.

Mrs Bonino is calling for three categories of fleet reductions:

- 40 per cent for those fishing for the most endangered stocks, including white fish such as cod, haddock, whiting and plaice in waters such as the Irish Sea and North Sea.
- Between 20 and 30 per cent for less sensitive stocks.
- 12 per cent for stocks in balance.

Criticism of Albanian election mounts

By Kevin Done, East Europe Correspondent, in Tirana

The streets of Tirana, the Albanian capital, returned to an uneasy calm yesterday, following the violent clashes between police and opposition demonstrators on Tuesday. Police, however, continued to patrol the central Skanderbeg Square.

But signs of growing worries about the country's stability emerged with the release of a sharply critical preliminary report by international observers on the conduct of Sunday's general election, and publicly expressed concern by Washington about reports of election abuses.

"We are urging the Albanian government and all the political parties in Albania to take all the necessary steps to ensure that the disputes that have arisen are addressed in a peaceful fashion," said Mr Glyn Davies, a State Department spokesman.

Both Italy, currently president of the European Union, and the Commission have also expressed concerns about the conduct of the election.

Albania's main opposition Socialist party claimed yesterday that 34 of its supporters had been arrested and beaten during the night, following the clashes, and later released, and that a 24-year-old member of the party's youth movement had been shot dead on a city street.

Italian and US diplomats were called in to negotiate a lifting of police pressure on the Socialist party headquarters, where protesters had been penned in following the clashes in nearby Skanderbeg Square.

Most of Albania's opposition parties pulled out of Sunday's election, claiming widespread ballot rigging, intimidation and violence. They are now seeking backing from Washington and west European governments for fresh elections.

THe Organisation for Security and Co-operation in Europe, which had 23 teams of observers in Albania for the election and co-ordinated the monitoring, outlined a number of concerns in its preliminary report yesterday.

It said observers had noted several instances during the counting of the votes in which the voter register was altered to bring it into line with the number of votes cast. In some polling stations the number of ballots cast exceeded the number of signatures on the voter register, and there were widespread reports of the alteration of ballots to make them invalid.

The accuracy of voter registers was questioned by both observers and party representatives on the local polling station commissions. The OSCE observers said decisions of the polling station commissions were not made by majority vote, but by the "arbitrary" decisions of the government-appointed chairman and secretary.

EUROPEAN NEWS DIGEST

Greece cancels Turkish talks

Greece yesterday called off talks between its foreign minister, Mr Theodoros Pangalos, and his Turkish counterpart, Mr Emre Gonensay, claiming talks "would not be useful under present conditions". The foreign ministers were to discuss Greek-Turkish disputes in the Aegean on June 3, during a Nato ministers' meeting in Berlin.

The announcement came the day after Greek officials said a Turkish warship collided with a Greek coastguard patrol boat near the disputed Imia islets in the eastern Aegean. No injuries were reported, but the Greek vessel was damaged. Tension in the area has been high since Greece and Turkey almost clashed over Imia in January.

Greek officials said bilateral contacts were not likely to resume until Turkey's government crisis is resolved.

Greece is reluctant to accept a Turkish offer of direct talks on various disputes until Turkey agrees to ask the International Court of Justice to settle the quarrel over sovereignty in the Aegean. *Kerin Hope, Athens*

■ Turkey's parliament will convene in special session next Monday to discuss a censure motion by a pro-Islamic party seeking to topple the centre-right coalition.

The no-confidence vote could take place as early as the end of next week. *Reuter, Ankara*

Sweden buries 1992 bank crisis

Sweden's parliament yesterday approved the end of a universal state bank guarantee aimed at helping overcome a loan-loss crisis that brought the country's banking system to the brink of collapse in 1992.

The removal of the guarantee to honour all commitments to creditors and depositors marks the official end to a crisis that cost the taxpayer SKr65bn ($9.7bn) in direct support to the banks. Two of Sweden's top four banks, Nordbanken and Gota Bank, were taken over by the state and merged as their capital was wiped out by losses, mostly triggered by collapsing property values.

Parliament also approved the disbanding of the Bank Support Authority, set up at the time to administer the rescue mission. The banks have now returned to profitability, and the state has begun the process of recouping some of the funds it was forced to lay out.

It has already received more than SKr10bn in dividends and privatisation proceeds from Nordbanken. The government hopes to recoup at least SKr40bn when it sells the remaining 65 per cent of Nordbanken and unwinds assets taken over by the state through bad loans. *Hugh Carnegy, Stockholm*

A Berlin Bundestag loses support

German public opinion is increasingly swinging against plans by the federal government to move from Bonn to Berlin by the end of the decade, according to a poll published today in Die Woche newspaper.

More than 42 per cent said they opposed the move to the German capital, while a further 21 per cent suggested it be postponed for financial reasons. The move, agreed following an emotional debate in the Bundestag in June 1991 – and during the heady days of German unification – is already costing the taxpayer DM20bn ($13.1bn).

Thirty-two per cent of easterners said they wanted the move abandoned, compared with 44 per cent of westerners. The Bundesrat, the upper house composed of representatives of the 16 states, recently put off a decision on whether it would follow the Bundestag to Berlin. *Judy Dempsey, Berlin*

Commerce's multimedia project

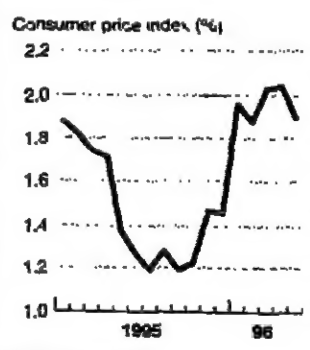
Six of Europe's largest chambers of commerce have joined forces to promote the use of the Internet and multimedia services by small and medium-sized companies.

The Deus project, supported by Ecu6m ($7.5m) of European Union funding, is one of the first European initiatives to emerge from last year's information technology summit of the Group of Seven industrial nations. The chambers of commerce of Amsterdam, Frankfurt, Madrid, Paris and Milan, which formed a club to represent their interests three years ago, announced yesterday they would combine with London's chamber of commerce to launch the project. The European Multimedia Forum, a consortium of about 60 IT companies, is to collaborate with the chambers. *Andrew Hill, Milan*

ECONOMIC WATCH

Prices edge down in Belgium

Belgian inflation



Source: Datastream

Belgian consumer prices fell by 0.17 per cent in May from a month earlier and rose 1.9 per cent year-on-year, according to the economic affairs ministry. In April, prices rose 0.17 per cent on a monthly basis and by 2.04 per cent from the previous year. The so-called health index used for indexing rents and salaries rose 0.21 per cent in May from a month earlier, the ministry said. May price rises included those for fresh fruit, petrol and flowers; falls were recorded in foreign travel, combustible liquids and fresh vegetables. *AFX, Brussels*

■ Registered unemployment in the Netherlands fell by 13,000 to 464,000 in the three months to the end of April from the same period a year earlier.

■ German import prices rose by 0.3 per cent in Aprilfrom March and by 0.8 per cent from a year earlier. Export prices climbed 0.1 per cent and 0.6 per cent respectively.

■ France's seasonally-adjusted trade surplus rose to a provisional FFr12.137bn ($2.33bn) in March from a revised FFr10.361bn in February. March exports rose to FFr124.887bn from a revised FFr118.719bn in February. Imports rose to FFr112.750bn in March from FFr108.358bn the month before.

Pyramid scheme set to pay delayed dividend at polls

The mayor of Cluj in Romania may well be re-elected thanks to the prosperity brought to the town by the fraudulent project he backed, writes Virginia Marsh

For the past four years, Mr Gheorghe Funar, head of Romania's largest nationalist party, has been a severe embarrassment to many of the citizens of Cluj, the elegant Transylvanian town he leads, as well as to the national government in which his party is the junior coalition partner.

His anti-Hungarian railings have provoked international condemnation, while his role in Caritas, a fraudulent pyramid scheme he openly backed – which has no connection with the international charity of the same name – has never been fully clarified.

Yet Mr Funar tops most opinion polls in Cluj ahead of Sunday's local elections and appears almost certain to go through to a two-way run-off for mayor on June 16.

Almost 300,000 Romanians – nearly seven for each post – are standing in Sunday's first round of voting for mayors and councillors. The first nationwide polls for four years will prove a crucial test for the country's many political parties before parliamentary and presidential elections in the autumn.

In Cluj, Mr Funar, whose National Unity party (PUNR) took just 10 per cent in the 1992 national elections, faces 22 opponents. The main threats are from Mr Ioan Rus, a pre-1989 Communist party activist who is now a partner in the local Mercedes dealership, and who is running for the governing Social Democrats (PDSR); and from Mr Radu Sarbu, a physicist and member of the Democratic Convention (CDR), a loose coalition of centre-right opposition parties which won almost all Romania's large cities in the last local elections in 1992.

Other candidates include an ecologist, several liberals, a member of the National Car Owners party which is campaigning for better roads (a big issue in a country with some of Europe's most pot-holed streets), and a representative of a local gypsy party, whose symbol is the Ace of Clubs. Gypsies form Romania's largest minority.

The party of the ethnic Hungarians – nearly a quarter of Cluj's 325,000 inhabitants – is not fielding a candidate, recognising that it could never win in this stronghold of Romanian nationalism.

"The elections in Cluj are of national importance," says Mr Iuliu Pacurariu, a councillor for the pro-reform Democrat party (PD) who withdrew from the race for mayor two weeks ago to join forces with the CDR against Mr Funar. "If Mr Funar loses, it will be a huge blow for the PUNR. Proof of corruption at the town hall will emerge and the party won't get back into parliament in the autumn."

Analysts say the PDSR, which is based on the group that has held power at national level since 1989, must win more votes in Transylvania, the most developed of Romania's three main provinces and where the party is weakest, if it wishes to strengthen its base in the autumn.

It holds just 34 per cent of seats in parliament, making the survival of its present government dependent on extremists like Mr Funar. This has tarnished both the party's as well as the country's image abroad.

The CDR, which hopes to reverse its narrow defeat in the 1992 national elections, has been able to capitalise on popular discontent with the PDSR's mediocre government but it has been greatly weakened by internal divisions. Its many mayors and councillors standing for re-election also have the difficult task of explaining why they have been able to achieve relatively little in the past four years.

The main problem for most mayors has been financial. A bill giving local authorities some financial independence is one of many laws held up in the backlog of legislation at parliament. In the meantime, towns have been receiving paltry amounts from the central budgets, often well after the start of the financial year and much of it already earmarked for specific areas.

Cluj county, for example, is this year due to receive a budget of just 30bn lei ($10m) for spending on health, education, transport and many other public services. This has not stopped Mr Funar from spending several billions of lei on statues, including a 40 metre monument to Avram Iancu, leader of Transylvania's 1848 uprising against Hungarian rule.

Money is much less of a problem for Cluj, than for other parts of Romania. The town was home to Caritas, the country's largest pyramid scheme which attracted some $1bn in deposits from about 4m Romanians. The scheme collapsed in 1994 with huge debts, but, by then, the locals who – encouraged by Mr Funar – started playing two years earlier, had already made a fortune.

"Caritas went bust, but Romanians have short memories," says a local businessmen. "What people here know is that, today, Cluj, mainly due to Caritas, is a lot more prosperous than most of the country. I'm afraid that is why Gheorghe Funar may well be re-elected."

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Shadow of sanctions adds to Serbian woes

By Laura Silber in Belgrade

The president of Serbia's Chamber of Commerce yesterday warned of the urgent need for foreign capital to jump start the economy as the international community threatened to re-impose sanctions over the war crimes issue.

"The economy needs $1.5bn a year in order to develop, which cannot be raised only from domestic capital," Mr Vlajko Stojiljkovic said in yesterday's issue of Politika, the pro-government Serbian daily newspaper.

Western diplomats say foreign investment is unlikely to begin until Yugoslavia gains access to international financial institutions.

His remarks came against a background of threats to renew UN sanctions on Belgrade. Sanctions were suspended in November after 42 months, when President Slobodan Milosevic of Serbia endorsed the Dayton peace accords.

But Mr Milosevic has failed so far to arrange the handover of Mr Radovan Karadzic, the Bosnian Serb leader, and his military commander, General Ratko Mladic, to The Hague war crimes tribunal. Under the Dayton agreement, the rival Balkan leaders agreed to extradite indicted war criminals.

The UN security council on Tuesday deplored Belgrade's "continued failure" to arrest Gen Mladic, which it said "cannot be justified". The sharply worded statement was read by the security council president, Mr Qin Huasun of China. Belgrade relies on China as an ally.

Renewed sanctions would have a serious effect on Serbia's economy which is still in a shambles after the previous sanctions, the collapse of trading among the former Yugoslav republics and the cost of backing Serb fighters in neighbouring Bosnia. More than half of the country's workforce is unemployed, most factories have closed down and the average monthly wage is down to about $100.

Mr Milosevic wants to stave off the re-imposition of sanctions, but fears a backlash within the political and military establishment and among Serbs if Mr Karadzic were arrested.

"More sanctions would also be very difficult for Milosevic to justify," said Mr Vujacic, an MP with the opposition Democratic party.

Mr Milosevic has blocked proposed economic reforms including privatisation, the full liberalisation of foreign trade and the restructuring of the banking system.

He has also vetoed an agreement with the International Monetary Fund giving rump Yugoslavia – Serbia and Montenegro – access to international financial markets.

Belgrade waiting game: Over half the workforce is unemployed, most factories have closed and the average monthly wage is $100

Belgrade has refused to join the IMF unless Yugoslavia is named as the sole successor to the former communist federation of six republics as opposed to one of five successor states.

A fortnight ago Yugoslavia's central bank governor, Mr Dragoslav Avramovic was sacked because he was willing to accept the IMF's terms, the same conditions endorsed by the other former Yugoslav republics.

Even if sanctions are not renewed, Mr Vujacic predicts another spate of hyperinflation in Yugoslavia – in December 1993 inflation made the dinar worthless and only its pegging to the D-Mark saved the situation. "Sanctions would mean a return to hyperinflation, but that will happen in any case."

French banks warned on service

By Andrew Jack in Paris

French banks must improve the quality of service to customers, but must also increase their charges to return to profitability, the head of a government watchdog body said yesterday.

Mr Benoit Jolivet, head of the consultative committee of the National Credit Council, part of the Bank of France, said the move towards a single European currency was likely to create a more competitive environment in which current accounts could be interest-bearing – a policy currently illegal in France.

In exchange, there was a need for banks to charge fair prices for services, including the use of cheques.

His comments came during a discussion arranged by the French senate on the financial troubles facing the French banking sector.

A number of participants argued that French banks were earning substantially lower margins on loans to clients than foreign competitors, with some even offering loans at a loss.

Mr Michel Freyche, head of the French Banking Association, said the country's mutual banking sector, the Post Office and the National Savings Bank, had unfair advantages because they were not obliged to provide dividends to shareholders.

Mr Rene Barberye, chairman of the Caisse d'Epargne, the French savings bank network, argued for "co-existence" with the commercial banking sector, stressing that his organisation maintained employment, paid substantial taxes and was free of control by "American rentiers" which he claimed controlled the country's quoted banks.

Mr Francois Henrot, head of the supervisory board of Credit du Nord, said the low levels of profitability among French commercial banks were the result of "a collective folly" dating back a number of years to when the financial sector was deregulated.

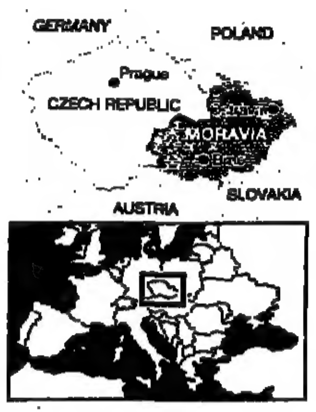
Czech party leaders fight poll duel in Moravia

The depressed industrial region highlights the divisions created by economic reform, writes Vincent Boland

Mr Vaclav Klaus, the Czech prime minister, is not only standing for re-election in the depressed industrial heartland of northern Moravia but he is in a straight fight with the leader of the opposition.

The last opinion poll permitted before the general election *tomorrow and Saturday* showed that Mr Klaus's centre-right Civic Democratic party was 6 points ahead of Mr Milos Zeman's Social Democrats nationally but the intriguing contest is whether Mr Klaus can inflict a double defeat on Mr Zeman by winning more personal votes in Moravia, where they both head their respective party lists.

Northern Moravia is a key battleground between the parties because it is the region which above all bears the scars of the economic revolution Mr Klaus has brought about. Close to the borders with Poland and Slovakia, it is dominated by steel mills, coal mines and smokestack factories but it also has many new service industries which have benefited from Mr Klaus' reforms.



Ostrava, the region's main city, has been choking on the huge Vitkovice steel plant since the 1820s. Executives at the plant say a massive environmental project has cut pollution dramatically, and they now claim, somewhat against the evidence, that the city is "cleaner than Prague."

The plant has laid off more than 16,000 workers since 1989, *but the boom in services* unleashed by Mr Klaus's reforms has provided alternative jobs and kept regional unemployment not much above the national average of 3 per cent. In the past few years the region also has become a centre of rising foreign investment.

The huge numbers of people who have changed employment in the past few years, leaving traditional industries to work in services, tend to support Mr Klaus. Those who have remained in traditional industries and those who have retired on small pensions are Mr Zeman's biggest constituency.

Commentators suggest there is a growing generation gap among voters, a gap evident at party rallies, with more young people turning up to hear Mr Klaus than Mr Zeman. Polls suggest that over 60 per cent of support for Mr Klaus's cen*tre-right Civic Democratic* party is from under-45s while supporters of the Social Democrats are more elderly.

Young people appear more impressed by Mr Klaus's firm leadership than Mr Zeman's caution and, in particular, by the vagueness of the Social Democrats' economic policy.

This generation gap is reflected in the party hierarchies. Mr Klaus enjoys giving economic lectures to students around the country, and has attracted large numbers of young Czechs to his party who appreciate the wider career opportunities thrown up by economic reforms. They make a youthful contrast with the ageing advisers and officials at the top of the Social Democrats.

Mr Kamil Janacek, a minister in the federal government with Mr Klaus in the early days of Czechoslovak democracy after the Velvet Revolution and now the chief economist at Komercni Banka, notes "the lack of competent young professionals inside the CSSD".

> Mr Klaus enjoys giving economic lectures to students around the country, and has attracted large numbers of young Czechs who appreciate the benefits of reforms

Mr Klaus emphasises the country's standing abroad as much as his achievements at home when addressing voters. He trumpets the government's achievements of privatisation, low inflation and OECD membership, and stresses the need for four more years to consolidate them. Miroslav Novak, a student at the Technical University in Ostrava, says: "I think Klaus deserves another [term]. What he has done is good. It is very hard for me to trust the Social Democrats."

Mr Zeman, who has been campaigning in the area almost exclusively since March, says he chose to run in northern Moravia because "in politics, as in sport, one chooses one's toughest opponent".

In contrast to Mr Klaus, Mr Zeman has sought to keep the issue of low wages to the fore, as well as the parlous state of the health service and the rising cost of medicines, issues of particular importance for *northern Moravia's many* older voters. One such, Mrs Jaroslava Kulhankova, a pensioner out shopping, says she is not convinced by Mr Klaus's prediction that incomes will double in the next four years. Complaining about the rising cost of medicines, saying she will be voting Social Democrat.

Older voters outnumber the young throughout Moravia, which has a rural, conservative south but observers expect a high turnout among young voters and the contest between the two prospective prime ministers could be close.

NEWS: THE AMERICAS

Bad news from back home jolts the president

Jurek Martin finds the White House deflated by the convictions handed down in the Whitewater fraud trial

The deflation within the White House at the news from the Arkansas courtroom late on Tuesday afternoon was palpable. A total of 24 guilty counts against Mr and Mrs Bill Clinton's former real estate business partners and the president's successor as governor of Arkansas destroyed growing hopes that a central pillar of the long-running Whitewater investigations would crumble to dust under the weight of acquittals.

Disappointment was obvious in the president's voice and face as he commented briefly on the outcome, praising the jury's diligence but wondering openly why they had appeared to believe Mr David Hale, a convicted felon, and not his own video-taped testimony for the defence of Mr and Mrs Jim McDougal.

Confident expectations of exoneration were expressed even more powerfully by Mrs Hillary Clinton, the president's wife, in an interview with Mr Jim Lehrer, of public television, recorded less than an hour before the verdicts came but broadcast later in the evening.

She, too, assailed Mr Hale, who had charged that, as governor 10 years ago, Mr Clinton had improperly put pressure on him to make an illegal loan to the McDougals. She dismissed as "pure politics" most of the Whitewater investigations and had no compunction in defending some Democratic campaign commercials accusing Senator Bob Dole, her husband's probable presidential opponent in November, of being a "quitter" for his decision to leave the Senate.

Morning-after reflections brought some relief. Several interviewed jurors said their deliberations had never come down to believing Mr Clinton or Mr Hale. It had been, they said, a complicated "paper trail" case and the president's apparent ignorance of the facts, taken at face value, meant that his evidence was not material.

That point was also made by Mr Kenneth Starr, the Whitewater special counsel, and even by Congressman Jim Leach, chairman of the House of Representatives banking committee and a long-time Whitewater scourge. Other Republicans were less reticent, among them Senator Al D'Amato of New York, who had been holding out little hope this week that his Whitewater special committee, due to wrap up its business in less than three weeks, would hit any form of paydirt.

Mr Clinton praised the jury, but wondered why they had appeared to believe a convicted felon and not his own video-taped testimony

The clearest consequence is the new legitimacy given to Mr Starr, the lawyer and judge with close Republican connections. He had been under recent attack for continuing to represent conservative clients in his private legal practice. Previous special counsel, dating back to Watergate in the 1970s, it was argued by the Clinton camp, had dropped all other business to concentrate on the public matter.

But it was his team which prosecuted the McDougals and Governor Jim Guy Tucker of Arkansas, and will now pursue other cases, both in that state and elsewhere, starting next month in Little Rock, the Arkansas capital, against others implicated in various aspects of Whitewater.

So far, the Starr team has a perfect record, with eight convictions, six resulting in prison terms, though several on charges only peripheral to Whitewater itself. The most prominent are Mr Hale, a former investment banker, and Mr Webster Hubbell, a partner with Mrs Clinton in the Rose Law Firm and later associate attorney-general in the justice department.

Mr Starr, like the White House, is constantly at pains to point out that neither the president nor Mrs Clinton has been the target of any criminal investigation. There are persistent rumours that she could be indicted over the affair of dismissals from the White House travel office in the summer of 1993, but these are unsubstantiated and may represent wishful thinking by Republicans.

But the special counsel may, in the opinion of legal experts, now have leverage to question the McDougals and Mr Tucker (the governor is to resign next month), on issues involving the Clintons but not yet covered in any court trial.

The judge in the McDougal case must now make a decision with political implications. Mr Clinton's taped testimony last month has not been seen outside the courtroom and is under seal. Many organisations, some in the media, some with partisan connections, have applied for its public release.

If the judge concurs, the tape might well provide ammunition for the sort of negative TV commercials already saturating the networks from both sides. Friends and associates of Mr Clinton having been found guilty by a home-town jury would figure in such assaults.

But sweeping assessments, other than the predictably partisan, of the damage done to Mr Clinton's chances of re-election were not instantly easy to find. Whitewater had clearly declined as an issue of importance to the general public, as reflected in opinion polls which put the president an average of 20 points ahead of Mr Dole.

The extent to which the issue is now ascendant may depend on the amount of general media coverage it now draws. That, in turn, may hang on Mr Starr's investigations and any now generated in Congress, with just over five months to go before the country votes.

Dole takes silent advantage from Clinton fall-out

By Patti Waldmeir in San Diego

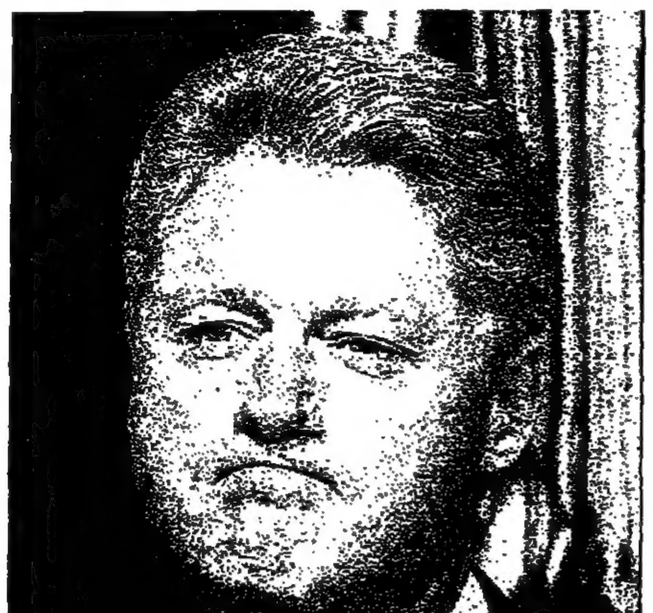
The conviction of President Bill Clinton's former business partners, in the Whitewater trial, is the best news Senator Bob Dole, Mr Clinton's presidential campaign rival, has had in months. But no one is going to catch him saying so.

Mr Dole was campaigning in California – a crucial electoral state where he trails Mr Clinton by a wide margin in the opinion polls – when news of the Whitewater verdict in Arkansas broke on Tuesday afternoon. He spent the rest of the day finding different ways of saying he was not going to crow about it, until he was reduced, by the end of the evening, simply to repeating "no comment".

But the look on the senator's face said it all. While his aides muttered sagely that the candidate "trusted the voters to draw their own conclusions", Mr Dole looked simply delighted. He is not a man who regularly betrays emotion – unlike his rival – so any slight change is immediately noticeable.

As Mr Dole kept reminding the travelling news media corps on Tuesday, he has never commented on Mr Clinton's Whitewater difficulties. He has always refused to "go negative" on the president, determined to be seen rising above such politicking. The senator knows he can rely on legions of political commentators to draw the negative conclusions which he declines to utter.

When he had addressed his first campaign rally after the announcement of the trial verdict, it was that silence which spoke most loudly. He attacked Mr Clinton for failing to keep campaign promises on welfare reform and taxes, and managed to imply that Mr Clinton was untrustworthy and deceitful. Mr Dole did not mention Whitewater once.



A glum incumbent: Bill Clinton might still be well ahead in the opinion polls, but it's Bob Dole's week so far Picture: Reuter

Rifkind hits at Cuba trade curb

By Bruce Clark, Diplomatic Correspondent

Mr Malcolm Rifkind, the British foreign secretary, said yesterday that the US was threatening western unity and hurting its own interests by penalising European companies that trade with Cuba.

In a speech at the National Press Club in Washington, he spoke out against "short-sighted, unilateral actions" which could damage the cause of free trade, both across the Atlantic and further afield.

"We do not quarrel with Congress's aims, but we disagree very strongly with the means they envisage," the foreign secretary said, referring to the new US law which aims to deter European companies from dealing with Cuba.

He likened the legislation, called the Helms-Burton law after its congressional sponsors, and efforts by Congress to pass similar measures to stop the Europeans from trading with Iran and Libya, to the Arab boycott on companies dealing with Israel, which all western countries had resisted.

"The cases are precisely comparable," Mr Rifkind said. "No country has the right to tell companies in another country how they should behave in third countries."

He added that the latest proposals for sanctions against European companies would "cause division among western allies, who should be working together to combat terrorism", and "penalise American workers" by driving business away from the US.

The foreign secretary, who has made the liberalisation of transatlantic trade one of his main issues since he took office last summer, acknowledged more frankly than before that there was powerful US resistance to this cause.

"I am realistic about the short-term prospects for further liberalisation, not least because this year sees elections" in the US.

But Mr Rikind said Britain would continue to work for the freeing of transatlantic trade, as part of its effort to achieve global free trade by 2020.

"We should cut remaining tariffs, recognise each other's standards, open up our public procurement ... [and] tackle agricultural subsidies."

Our Foreign Staff reports: The US was yesterday sending letters to Canadian, Italian and Mexican companies to warn them that they may be hit by US sanctions under the Helms-Burton law, a US government source said.

The letters would be sent to Canadian mining and energy company Sherritt International, Italian telecommunications concern Stet and Mexican conglomerate Grupo Domos.

Stet said yesterday it had not yet received a letter from the US authorities and would not comment until it had. Sources close to the Italian company said Stet was calm about the US initiative, because it believed US legislation "probably didn't apply to this case".

An elephant in the living-room

Colombia's Congress is debating a growing drug scandal, writes **Sarita Kendall**

Two years after the release of tape recordings which suggested that drug money had infiltrated the 1994 election campaign of President Ernesto Samper of Colombia, the issue is being debated in Congress.

The debate on whether to accuse Mr Samper of having taken contributions from the drug trade cartel based in the Colombian city of Cali is the most important step so far in the affair. It has already led to the arrest, 10 months ago, of his campaign manager and treasurer.

However, expectations of the proceedings in Congress are not high. These have been variously described as a farce, a circus and the debate of the century – whichever is the case, no result will be enough in itself to dispel the country's political crisis.

Last week, an investigating commission sent the House of Representatives its recommendation that the charges against the president – including fraud, illegal enrichment and covering his tracks in these matters – should be dropped.

As Mr Samper's Liberal party has a majority in the house, and as more than half of the Conservatives, also represented in the cabinet, are sympathetic to the president, a complete absolution is expected. Congress members under investigation for their own links to drug money will be tempted to exonerate Mr Samper so as to create a self-serving precedent.

However, Mr Rodrigo Rivera, president of the house, said it was capable of a surprise. He pointed out that the discussion so far has focused on personalities and prejudices, not on analysis of evidence. In addition to representatives, the president's lawyer and the prosecutor-general may take part in the debate, which formally started on Tuesday and is limited to 15 days.

In a rush to avoid their responsibilities, some 25 per cent of the representatives have ceded their seats to substitutes: a warning from the constitutional court that parliamentarians may be charged with violating legal procedures if they disregard evidence clearly had created unease. But, given that the final vote will probably be secret, it is difficult to see how the court would know whom to charge.

If the house votes to accuse Mr Samper, the case will pass to the Senate, where there is also a Liberal majority. The Senate is the only body which can decide whether to impeach the president.

Mr Samper has insisted from the beginning that any contributions by drug traffickers were made behind his back. Much of the case against him rests on statements by the former campaign officials arrested 10 months ago. Evidence from imprisoned Cali cartel leaders who are supposed to be co-operating with justice is never mentioned.

Mr Samper claims there was no need for him to know anything about the day-to-day management of the campaign or its finances. However, with drug contributions estimated at $6m or more, his failure to notice them led the president of the Colombian bishops' conference to comment that it was like not noticing an elephant in one's living-room.

A beleaguered incumbent: Congress is expected to clear Ernesto Samper, but the political crisis would remain Picture: Timothy Ross

"The president and his lawyers have managed to convert everything into a legal, instead of a political, problem," said Mr Carlos Caballero, head of the Bogotá stock exchange.

This has allowed a morass of legal niceties to displace any serious discussion of political responsibilities and has led to public sparring among Colombia's foremost institutions, especially between the prosecutor-general's office and the attorney-general, who is now under arrest for alleged receipt of drug money.

Like many economists and businessmen, Mr Caballero believes that Mr Samper must resign to prevent further loss of "governability" and of international prestige. "His resignation is a necessary, but not a sufficient, condition for economic recovery. A tremendous adjustment is needed in the public sector," Mr Caballero said.

Although the political crisis is only partly responsible for the current deceleration of the economy, it has created a sense of paralysis on many fronts, including the government's inability to counter a resurgence in guerrilla and paramilitary activity. The president's announcement last week of the construction of a canal across the north-western region of Urabá, to link the Atlantic and the Pacific oceans, was largely treated as yet another smokescreen.

The whole matter has shown up a lack of political opposition and leadership. Mr Samper has used his considerable political skills to stay in power, despite the fact that most Colombians believe he knew about cartel's contributions to the campaign.

In this he has had unexpected help: every time the US acts against Colombia, such as withdrawing certification of the country over perceived shortcomings in the fight against drug trafficking or expressing (as the State Department did last Friday) doubts about the impartiality of those who may accuse him, nationalism puffs out its chest and stands by the president.

CONTRACTS & TENDERS

LEGAL NOTICES

NEWS: WORLD TRADE

Taiwanese group 'in $3.8bn China deal'

By Laura Tyson in Taipei

Formosa Plastics, Taiwan's biggest industrial group, is understood to have finalised a deal to build a US$3.8bn thermal power plant in China's Fujian province. The deal comes only two months after an intense military stand-off between Beijing and Taipei.

Due to the cross-strait sensitivities Formosa Plastics is refusing formally to announce the deal, which is designed to fuel Fujian's largely Taiwan-backed economic boom.

Taiwanese media have reported the deal widely, citing unnamed Fujian officials and Formosa executives.

Formosa Plastics' chairman, Mr Wang Yung-ching, and provincial government officials signed contracts on Tuesday under a cloak of secrecy.

Mr Wang went on to Beijing yesterday to meet senior officials to discuss the group's China investment plans, which include several other power plants.

Formosa Plastics executives in Taiwan and the US declined to give confirmation of the project, which has been under consideration for at least six months, and has been handled personally by Mr Wang.

"We're unclear about this plan," said a spokeswoman at Formosa Plastics. "Only our boss can confirm the details."

> The project is designed to fuel Fujian's largely Taiwan-backed economic boom

The Taiwan government restricts investment in China by Taiwanese companies by law and individually screens projects worth more than a few million dollars. In 1992, Formosa Plastics bowed to government pressure and backed away from building a planned US$6bn petrochemical complex in Xiamen, on the coast of Fujian province.

It is understood that, in an effort to circumvent Taiwanese restrictions, investment in the power plant project is being routed through a Formosa Plastics subsidiary in the US.

It is not clear what stakes Formosa Plastics and the Fujian government will take in the project, whether there are any other investors or how the financing will be raised.

The natural gas-fired plant, to be located in Changchou city, will have six generators and a capacity of 3,600MW. The first generator will start producing electricity in 1999.

Formosa Plastics' share of the project would be by far the largest Taiwanese investment in China. To date 25,000 Taiwanese companies have committed themselves to invest a total of about US$24bn, making Taiwan China's second-largest foreign investor.

Taipei recently lifted a complete ban on companies investing in the power generation sector in China, but the government may be extremely reluctant to approve an investment the size of that planned by Formosa Plastics.

Formosa Plastics' project has received close attention from China's central government and has been given preferential treatment, including five years without tax, plus five years at half-tax rates after the plant begins to turn a profit. The government has provided land, coal, access to harbours, a higher return for electricity sales and other incentives.

Portugal wins Siemens chip plant project

By Peter Wise in Lisbon

Siemens, the German electronics and electrical engineering group, has chosen Portugal from 26 competing countries as the site for a Es60bn ($380m) memory chip plant that will create 750 jobs.

Portugal's quality control capabilities – in addition to political stability and high investment incentives – were a decisive factor in the choice, in spite of fierce competition from eastern Europe, Siemens said.

Portuguese newspapers said the Czech Republic, Ireland, the Philippines, Malaysia and China had been short-listed with Portugal, but Siemens declined to comment on other candidates. Siemens' decision was also influenced by its long-term presence in Portugal, where it already has five plants employing 5,000 people.

Mr Helmut Kohl, the German chancellor, is to preside at the signing of a protocol in Lisbon today that sets the terms for further negotiations on a formal investment contract between Siemens and Portugal.

The plant, which is to begin production near Oporto by the end of 1996, represents the second biggest foreign investment in Portugal and the first important inward investment negotiated by the socialist government since it took office six months ago.

The plant will have the capacity to produce 150m 16MB D-ram (dynamic random access memory) chips a year and is later expected to upgrade for the production of 64MB and 256MB D-ram chips.

Mr Augusto Mateus, Portugal's economy minister, said yesterday that the upgrading of Portuguese companies was an important part of the agreement with Siemens. By 2007, the Oporto plant is expected to use as much as 70 per cent Portuguese inputs.

Mr Mateus said the extent of financial incentives – which will be limited to a maximum of 40 per cent of the total investment – would depend on Siemens' performance in relation to targets, including sales volume and technical advances in the plant's output.

He acknowledged that Portugal's incentives weighed heavily in Siemens' decision. But he added the incentive package covered training, operational facilities, technology and know-how transfers and regional development, as well as fiscal benefits and EU-financed grants.

Europe seen slipping behind in global competitiveness

By Frances Williams in Geneva

Singapore, Hong Kong and New Zealand top the list of the world's most competitive countries, ahead of the US in 4th place, according to the Geneva-based World Economic Forum.*

Its Global Competitiveness Report, published yesterday, says the European Union is slipping behind many parts of the world in economic competitiveness, weighed down by a costly social welfare system.

"Five of the six most competitive nations are small, open economies with relatively small governments and low tax rates," the report notes.

The WEF report, which covers 49 countries, follows publication earlier this week of a competitiveness league table compiled by the International Institute for Management Development (IMD), the WEF's former collaborator.

Luxembourg is the only EU member to feature in the WEF's top ten, with Denmark in 11th place.

Britain, which is ranked 15th, beats the EU's other big economies, ranking ahead of Germany (22nd) and France (23rd).

Outside Asia, Chile is the highest ranking developing country (18th).

The WEF says its rankings, aimed at identifying the countries with the best growth prospects over the next 5-10 years, are based on criteria which have been demonstrated to affect economic performance. The "competition index" from which the rankings are derived correlates closely with recent growth of gross domestic product per head.

Competing competitiveness reports

Country	World Economic Forum Rank	IMD Rank
Singapore	1	2
Hong Kong	2	3
New Zealand	3	11
United States	4	1
Luxembourg	5	8
Switzerland	6	9
Norway	7	6
Canada	8	12
Taiwan	9	18
Malaysia	10	23
Denmark	11	5
Australia	12	21
Japan	13	4
Thailand	14	30
United Kingdom	15	19
Finland	16	15
Netherlands	17	7
Chile	18	13
Austria	19	16
South Korea	20	27

Competitive economies, the WEF argues, are those with "open markets, lean government spending, low taxes, flexible labour markets, an effective judiciary and stable political systems".

"The competitive nations are the ones that have chosen the institutions and policies that promote long-term growth," in the words of Prof Jeffrey Sachs, who chairs the report's advisory board.

European nations such as Germany are rated relatively poorly because they are seen as being hampered by more rigid labour markets and costly social welfare programmes.

Prof Sachs estimates that this factor accounted for half the 4 percentage point difference in growth in 1990-95 between the EU and the Asian "tigers", the rest being attributed to higher initial income (poorer countries tend to grow faster) and lower national savings rates.

The IMD, by contrast, uses as one of its criteria "the extent to which enterprises are managed in an innovative, profitable and responsible manner", the top-rated country here being Sweden.

While Singapore and Hong Kong score highly in both assessments, the US takes first place in the IMD rankings and Japan is 4th. The WEF puts Japan a lowly 13th and Germany, Europe's biggest economy, is ignominiously relegated to 22nd place, compared with 10th position in the IMD league. Elsewhere the WEF gives much higher marks than the IMD to New Zealand, Taiwan, Malaysia, Australia and Thailand, and much lower marks to Denmark, the Netherlands and Sweden.

More curiously, the WEF ranks China (36th) below Jordan, Egypt and the Czech Republic, while Italy (41st) is judged less competitive than Peru, Greece and Colombia. Both organisations put Russia firmly at the bottom of the class, with Venezuela, Poland and South Africa also performing badly.

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WORLD TRADE NEWS DIGEST

Athens airport finance cleared

The European Commission yesterday cleared an Ecu2.15bn ($2.6bn) financing package for construction of Athens' new Spata airport, Greece's biggest transport infrastructure project, saying it did not constitute anti-competitive state aid. The project to build what will become Greece's main airport, 25km from Athens, attracted controversy last year when the contract went to a German consortium, despite fierce lobbying by France.

The airport funding package includes grants from the Greek government, preferential tax treatment, state loans and guarantees. The project is receiving support of Ecu250m from the EU's cohesion fund, which provides grants to poorer regions, and an Ecu1bn loan from the European Investment Bank. The support offered is believed to be the "minimum necessary" to secure the interest of private investors.

The airport will initially serve about 15m passengers a year when it opens at the end of the year 2000. Athens' existing airport at Hellenikon will close. The airport is being developed as a joint venture between the Greek state and a consortium comprising Hochtief, ABB Calor, Emag Schaltanlagen and H. Krantz. *Neil Buckley, Brussels*

Swiss get mixed 'bill of health'

Switzerland's economic and trade regime was yesterday given a mixed bill of health by trading partners in the World Trade Organisation. Discussing a report drawn up by the WTO secretariat, countries complained the Swiss market was hard to penetrate, despite a generally liberal trade regime for manufactured goods.

Domestic agriculture remained heavily protected despite planned reforms. In the non-agricultural sector, the strength of the Swiss franc and lower import prices had not translated into significant domestic price cuts. In the services sector, a variety of obstacles, including work permit regulations, inhibited foreign competition. Trading partners urged Switzerland to press ahead with measures to ensure more genuine openness in the economy. *Frances Williams, Geneva*

Venezuela signs rail deal

The Venezuelan government yesterday signed an $800m contract with the Italian-Japanese-Venezuelan consortium, Contuy Medio, to build a commuter railway linking Caracas with the suburb Valles del Tuy. Half the project's cost will be financed by the Venezuelan government and the other half by Contuy Medio. The railway begins service in 2001 and will carry 180,000 passengers a day. The government will only subsidise the fare by up to 30 per cent. This rail segment is the first of a planned 650km network linking Caracas with Acarigua, 300km to the west. *Raymond Collitt, Caracas*

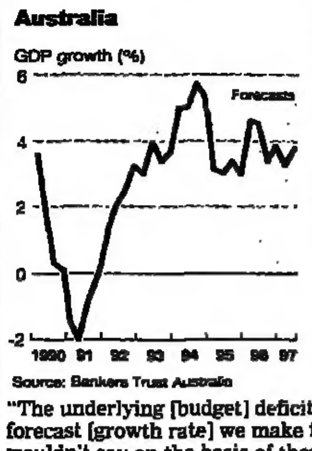
NEC in satellite venture

ICO Global Communications, set up last year by Inmarsat to develop a satellite-based worldwide mobile phone system, has placed contracts worth $500m with a consortium led by NEC of Japan for ground systems, it said yesterday. Upgrades until 2010 are expected to be worth a further $150m.

The consortium includes Hughes Network Systems of the US and Ericsson of Sweden. NEC is taking an equity stake in ICO, and becomes a strategic partner in the project, which intends to place 12 satellites in medium Earth orbit by 2000, providing customers with voice, data, fax and messaging services to and from anywhere in the world. *Alan Cane, London*

ASIA-PACIFIC NEWS DIGEST

Australia sees surge in growth



Source: Bankers Trust Australia

Australia's year-on-year economic growth rate surged to 4.8 per cent in the quarter to the end of March – up from just over 3 per cent in the 12 months to end-December and well in excess of most economists' forecasts. However, Mr Peter Costello, the federal treasurer, quickly reaffirmed that Australia's new conservative government would push ahead with its planned spending cuts – amounting to around A$8bn (US$6.2bn) over the next two fiscal years – despite the stronger than expected result.

"The underlying [budget] deficit for 1996-97 is A$8bn; the forecast [growth rate] we make for 1996-97 is 3.25 per cent. You wouldn't say on the basis of these figures that the forecast for 1996-97 has markedly changed," he said.

The size of the federal government's budget deficit is fairly sensitive to the growth assumptions used. When the new Liberal-National coalition government took office in March, it re-worked budgetary projections for 1996-97 using a 3.25 per cent growth rate. This was lower than the 3.75 per cent figure employed by the former Labor administration in its last official projections.

Using the new growth rate, the coalition predicted a A$8bn budget deficit for the 1996-97 fiscal year. It has subsequently used this figure to justify big public spending cuts.

While analysts conceded that the 1.8 per cent increase in gross domestic product in the March quarter alone was unlikely to be repeated in the foreseeable future, they concluded that the Australian economy was more robust than previously thought.

The bond market weakened after the data were released, with any hopes of an interest rate cut receding further. But Mr Bernie Fraser, governor of the Reserve Bank, the central monetary authority, said he did not believe the quarterly data would put additional upward pressure on interest rates.

Meanwhile, Mr Costello said yesterday that no decision had yet been made on who would succeed Mr Fraser as governor of the Reserve Bank. Mr Fraser has said he will step down when his term expires in September. *Nikki Tait, Sydney*

Rise in Japan's industrial output

Japan's industrial output rose by 3.9 per cent from March to April, in line with a modest economic recovery, but this was not thought strong enough to tempt the central bank to raise its record low official interest rate. The April increase in production, according to seasonally adjusted preliminary data from the Ministry of International Trade and Industry, appears to mark a steep bounce back from a record 6 per cent month-on-month decline in March.

Both figures are in fact exaggerated by statistical factors. Quarterly averages, giving a clearer measure of the trend, show that industrial production rose by 0.4 per cent from the last three months of 1995 to the three months ending in March and it is set to rise 1 per cent in the second quarter to June, the third quarter of growth, according to Miti's latest forecast yesterday.

That would bring year-on-year output growth to 1.9 per cent in the second quarter, a level last seen in the same period last year, just before production started to slow, due to the after-effects of the Kobe earthquake. Miti officials said increased sales of personal computers and mobile phones led this latest recovery.

The ratio of inventories of unsold goods to deliveries fell by 4.4 per cent in April but, even after that fall, stocks were slightly above February levels, swollen by an end of 1995 production increase in anticipation of a sales boom in the new year which failed to materialise. *William Dawkins, Tokyo*

Red Cross appeal for N Korea

The International Federation of the Red Cross made an urgent appeal yesterday for $5.25m in food aid to help tide North Korea over until its harvest in October. Mr George Weber, secretary-general of the International Federation of the Red Cross, warned that 130,000 North Koreans risked famine unless the international community responded.

"These people are entirely reliant on the Red Cross for their daily rice ration," Mr Weber said. "This crucial food lifeline must be maintained." Some 500,000 North Koreans were left destitute last July and August by floods.

In Seoul, Mr Bill Richardson, a US congressman who has conducted peace missions on President Bill Clinton's behalf, said after a visit to North Korea that Pyongyang probably would not agree to proposed four-party peace talks including the US, South Korea and China until its food shortage had been solved. *Tony Walker, Beijing and John Burton, Seoul*

HK runway deal set for signing

Britain and China are today set to sign an agreement clearing the way for construction of a second runway at Hong Kong's new airport, according to officials in the territory.

The accord reflects improved co-operation on economic issues ahead of Hong Kong's handover to China next year and marks a contrast with the protracted wrangling over construction of the airport. Rows between London and Beijing prompted a delay in the project, which is now due for completion in spring 1998, rather than the middle of next year. Industry executives said work would start almost immediately and the runway could be completed by late 1998. The cost is estimated at about HK$4bn ($519m). *John Ridding, Hong Kong*

China detains dissident

Chinese dissident Mr Wang Donghai has been detained in the run-up to the seventh anniversary of the June 4, 1989 Tiananmen Square crackdown on student protesters in Beijing. Mr Wang was taken into custody after sending a petition to parliament demanding the release of political prisoners including Mr Wei Jingsheng, jailed last year for his pro-democracy activities. *Tony Walker, Beijing*

Gowda breaks mould of Indian premiers

The rise of regionalism has handed power to a man who speaks little Hindi, writes **Shiraz Sidhva**

Mr H.D. Deve Gowda, who will be sworn in as India's 14th prime minister on Saturday, is a self-confessed peasant and speaks virtually no Hindi. That alone distinguishes him as India's first "regional" prime minister, reflecting the rise of regionalism within the country.

The 63-year-old leader of the United Front coalition of disparate regional and low-caste based parties was yesterday attempting to form a government in the wake of the resignation earlier this week of Mr Atal Behari Vajpayee, the leader of the Bharatiya Janata party, the Hindu nationalist group. The BJP, which emerged as the largest single party after this month's election returned a hung parliament, failed to win support from a large swathe of independents who condemned its anti-Moslem rhetoric.

"I will try my best to live up to the expectations of 900m people," said Mr Gowda, after accepting an invitation from President Shankar Dayal Sharma, to head India's next government.

It was a typically unemotional and humble response from a man little known outside of his home state of Karnataka where, as chief minister, he has made the task of attracting foreign investment a high priority.

Bangalore, the state capital, is today India's Silicon Valley and foreign investors there include IBM, Levi Strauss and Motorola. In January 1995, Mr Gowda laid out the red carpet for the late Mr Ron Brown, the former US commerce secretary, and secured a clutch of foreign investment deals. Such a record should help ease the markets which dipped on the BJP's removal and which have generally supported the Hindu nationalist party as the only movement capable of continuing the economic reforms of the Congress party, the main casualty of the election.


Gowda: the United Front leader was previously little known outside Karnataka *Reuter*

Today Mr Gowda will resign as chief minister of Karnataka before taking up his new post. His friends say he is reluctant to leave Bangalore and his 20-hectare farm in the fertile Kaveri river basin for what is widely expected to be a turbulent 12-18 months in New Delhi. Few commentators reckon Mr Gowda will survive beyond then and pessimists say he will have fallen by the year-end after failing to hold together his fractious coalition.

"Do you really want this headache?" his wife is reported to have told him over the telephone after he was elected compromise leader of the United Front a fortnight ago.

A farmer by birth and a civil engineer by training, Mr Gowda symbolises the kind of political consensus which should ensure that Congress's economic reforms, started in 1991, are continued. The United Front, which won 180 seats in the election – less than the BJP but significantly more than Congress – could not have formed a government without the support of Mr P.V. Narasimha Rao's Congress which had threatened to pull the rug from under its feet if reforms were not maintained.

"He is perhaps the only leader acceptable to the Congress, and he will go ahead with the economic reforms that they started," says Mr Jaipal Reddy, a senior MP of Janata Dal which forms the Front's largest single group.

"I will not describe myself as an economic reformer, I am just a peasant," Mr Gowda said in a recent interview. As India's first regional leader – all his predecessors have been politicians at the national level – he hopes to restore the federal structure of the country which Mrs Indira Gandhi started to erode in the late 1970s whenever she perceived a threat to her authority.

"The days when the central government was run by one party are over," said Mr Gowda last week. "The regional parties are stronger now, and their voice has to be heard."

Known as a political pragmatist who talks straight, plays his cards close to his chest and trusts few people, Mr Gowda started his political career with Congress in 1953. A decade later, he switched to socialist groups, changing parties like many Indian politicians to cling to power.

His political strength is derived from his farmer-dominated Vokkaliga caste, a more powerful interest group in Karnataka than party affiliation.

"His ambition was to develop Karnataka into India's most prosperous state," said Mr H.D.Kumaraswamy, his son. "I don't think he was prepared to leave the state at this stage."

The United Front has been described as a rag-tag band of socialist and left-centre parties. It nominated Mr Gowda for the leadership role, ahead of other potentially divisive regional strongmen such as Mr Laloo Prasad Yadav, chief minister of Bihar, and Mr Mulayam Singh Yadav, both of whom derive support from farmers' groups and India's lowest castes.

Mr Gowda is not an MP and must be elected to the lower house through a by-election within six months of being sworn in as prime minister. Mr Kumaraswamy, a film distributor and a campaign manager for his father in regional elections in 1994, has been elected an MP but is is expected to give up his seat to accommodate his father.

Unlike his predecessors Mr Gowda is said to be immersed in his political career with little desire for outside interests. Mr Vajpayee was a published poet and an orator: Mr Rao spoke more than two dozen international and Indian languages, was a computer buff and has an uncompleted novel under his belt. That, too, sets Mr Gowda apart.

Editorial comment, Page 13

Seoul government rules out forced depreciation of won to narrow trade gap

South Korea deficit reaches record high

By John Burton in Seoul

South Korea's current account deficit reached a record high in April, but the government ruled out measures such as a forced depreciation of the Korean currency to narrow the widening trade deficit.

The $2.2bn current account deficit was the highest monthly shortfall in the nation's history, the central bank said yesterday. The total deficit for the first four months of 1996 amounted to $6.5bn, exceeding the government's target of a $6bn deficit for the entire year. This reflected a sudden drop in prices for such key export items as semiconductors, petrochemicals and steel, while overseas travel spending by Koreans has significantly increased.

Exports grew by 6.5 per cent to $10.6bn in April against a year earlier; imports surged 14.8 per cent to $12.1bn as shipments of raw materials and consumer goods from abroad increased.

Mr Rha Woong-bae, deputy prime minister for economic affairs, predicted the current account deficit this year would be well above the government's $6bn target because of sluggish global demand, an increase in raw material costs and a weaker yen benefiting rival Japanese industries.

But the government would not, as in the past, resort to such measures as a tight monetary policy, controls on private spending or depreciation of the won to limit the deficit, he declared.

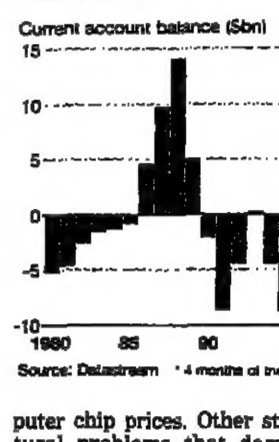
Mr Rha explained such drastic steps were not needed because the current account deficit was manageable, since it amounted to only 1.9 per cent of last year's gross domestic product.

The deficit so far appears not to have adversely affected general economic growth. The nation's industrial production in April, for example, was 2.6 per cent higher than output in March.

Economists remain confident South Korea will be able to achieve 7 per cent GDP growth this year, against 9.3 per cent in 1995, because of strong domestic demand.

The growing trade gap is a sign Korean industry is losing its global competitiveness and measures must be taken to correct the problem, Mr Rha added. The government must encourage industry to expand the range of export products and reduce the economy's dependence on a few key products, such as cars, semiconductors, ships and petrochemicals.

He urged the semiconductor industry to cut back on production expansion plans in the face of a global fall in computer chip prices. Other structural problems that damage Korea's export competitiveness include low productivity growth and rising wages.



Source: Datastream * 4 months of the year

Jakarta floats 35% of state bank

By Peter Montagnon and Manuela Saragosa in Jakarta

Indonesia is to float 35 per cent of Bank Negara Indonesia, its largest state-owned bank, later this year. The move should restore momentum to its privatisation programme following the disappointing response to last November's sale of shares in its Telkom utility.

Mr Bacelius Ruru, senior finance ministry official responsible for state enterprises, said the BNI float would be a domestic issue listed in Jakarta, with a tranche offered to international investors and a single co-ordinator.

This is in contrast to Telkom, criticised for its cumbersome lead group involving four global underwriters and an issue in New York. The lead managers failed to foresee market resistance to telecoms shares at the time. The issue was halved to $1.59bn and its price slashed in a last-minute effort to launch it.

Some brokers regard the choice of a bank as a controversial follow-up to the Telkom issue. The banking sector is passing through a period of weakness with a large accumulation of doubtful debts, totalling 10.4 per cent of lending at the end of last year.

Mr Soedradjad Djiwandono, cental bank governor, admitted yesterday that Bapindo, another state-owned bank, came near collapse last year. He confirmed the central bank was involved in restructuring the assets of the private-sector Bank Pacific, which has hit problems over property loans by an affiliate, estimated by bankers at some $800m-$900m.

Bank Negara, whose profits increased last year by 31 per cent to Rp405.8bn ($177m), was the best managed of the state banks, he added. He had told the top management of all such banks they should expect to be privatised eventually. "Bank Negara seems the best prepared," he said. It had a low incidence of bad debts and could become a positive example to other banks.

The finance ministry was considering a further issue of Telkom shares, but no decision had been taken, Mr Ruru said. Brokers say such a move would make sense because the issue has risen strongly since last November and closed yesterday at Rp3,625 against the original issue price of Rp2,050.

After BNI, the government would float Jasa Marga, the toll-road company, probably early next year, Mr Ruru said.

This would be followed by Perusuhaan Listrik Negara, the electricity company. It would be privatised with the issue of shares by two generating companies, though this would require clarification of policy issues relating to payments for electricity produced by private generators.

Mr Ruru said Indonesia had decided to sell no more than 35 per cent of any company being privatised, but this would still allow the government to meet its aims of raising funds to pay down high-interest foreign debt, developing the local capital market, and enhancing the management of state-controlled companies.

"Before Telkom was privatised, it took months to get a phone line; now they are marketing hard," he said.

Manuela Saragosa adds from Jakarta: Mr Sanyoto Sastrowardoyo, Indonesia's investment minister, yesterday pointed to record foreign investment approvals for the first five months of this year as evidence Indonesia's controversial policy to develop a national car was not scaring off investment.

Yankee bond offering, Page 18

Japan interest rate storm breaks

By Gerard Baker in Tokyo

A simmering political battle over Japanese interest rate policy burst into the open yesterday in an unusually public slanging match between two leading figures in the political and financial establishments.

Mr Seiroku Kajiyama, chief cabinet secretary, denounced a thinly disguised attack on "interfering politicians" by Japan's top banker.

Mr Kajiyama took exception to remarks by Mr Shunsaku Hashimoto, chairman of the federation of bankers' associations of Japan, that seemed to suggest politicians should not interfere with the conduct of monetary policy.

"Banks are not gods. Banks are not the law," said Mr Kajiyama. "It is regrettable he asked us to keep silent. We shall have to rectify such arrogance." Mr Hashimoto had nothing to add to his comments on Tuesday that interest rate policy should be for the Bank of Japan to decide.

At the heart of the row is a growing frustration and uneasiness among politicians at the present monetary policy conducted by the Japanese central bank. Several cabinet members have recently urged the bank to raise Japan's record low interest rates.

Their concern, with an eye to the general election that must be held within the next year, is that Japan's celebrated nation of savers is losing more than it gains from an easy monetary policy.

The official discount rate has stood at a record low of 0.5 per cent since last September; most normal deposit accounts at banks at present yield interest rates even lower than that.

In February, Mr Wataru Kubo, finance minister, suggested interest rates should be raised to ease the problems of older people who rely heavily on bank interest to supplement their pensions.

Last week, Mr Kajiyama called on financial institutions to reconsider their low interest rates on behalf of all depositors. The political concern is made more potent by the suspicion that savings rates are being kept deliberately low to assist the country's highly unpopular banks. The easy monetary policy has certainly helped them: it was the main reason they were able to make such progress in disposing of their bad debts in the financial year ended in March.

> It is thought savings rates are being kept low to help the highly unpopular banks

Bankers, stung by political criticism of their role in the collapse of the country's housing loan companies, towards which the government is asking the taxpayer to contribute more than Y600bn ($5.5bn), have begun to hit back.

On Tuesday, Mr Hashimoto, who is also president of Sakura Bank, one of the leading lenders to have benefited from the low interest rates, said: "Financial policy is the exclusive jurisdiction of the Bank of Japan. Those from other circles should not be telling the bank what to do about it."

The debate sheds a different light on the relationship between the government and the central bank. Interest rate policy is set by the bank, in consultation with the finance ministry. But, as the politicians' frustration demonstrates, it is the ministry officials, rather than ministers, who have real sway. Politicians, even ministers, are often reduced to the role of lobbyists for constituencies.

Calls have come for the bank to have greater independence from government. They have been backed by the governor of the bank, Mr Yasuo Matsushita. The dispute suggests the effect of such a move would be unclear; the change would simply mean substituting control by one set of bureaucrats, the finance ministry, for another: the Bank of Japan.

NEWS: UK

Scotland wins its first big Korean investment

By John Burton in Seoul and James Buxton in Edinburgh

Scotland yesterday won its first big inward investment from South Korea, with an agreement by Shinho Electronic Telecommunications to set up a £8.2m ($12.5m) assembly plant. The plant will help fill a gap in the range of products manufactured in Silicon Glen, the Scottish electronics belt which is dominated by US and Japanese companies.

The agreement was signed by Mr Michael Forsyth, Scottish secretary in the British government, who is visiting east Asia. "This decision by Shinho Tech is important because it is ground-breaking and I am determined that their investment will be followed by other Korean companies," he said.

The Shinho plant will be in the eastern Scotland town of Glenrothes and will create 280 jobs. Mr Lee Soon-wook, the Shinho vice-president, said the company had selected Scotland because of its extensive electronics industry. The project will receive an unspecified amount of regional selective assistance.

Last autumn Chung Hwa, a Taiwanese company, agreed to set up a £260m plant in Lanarkshire in central Scotland to manufacture cathode ray tubes for computer monitors and televisions.

Mr Forsyth will meet representatives of South Korea's LG Electronics who are planning inward investment in the UK. Indications were that the company would choose Wales or England as the site for a $1.5bn microchip plant. However, Mr Forsyth hopes to persuade the company – which changed its name from Lucky Goldstar last year – to open a second plant in Scotland.

Other big South Korean inward investment projects in the UK include Samsung Electronics, which has opened a consumer electronics factory in north-east England, attracting several Korean subcontractors to the area. Daewoo plans to open a $1bn semiconductor plant in Northern Ireland in a joint venture with Texas Instruments.

Last week Mr Forsyth announced in Tokyo that Kohdensha, a Japanese electronics company, would establish a plant at Dunfermline in eastern Scotland to make printed circuit boards. The investment would be worth £6.5m.

He also said that Tenma, a Japanese maker of plastic mouldings, was expanding its plant at Cumbernauld near Glasgow with a £5m project which would create 119 jobs.

Both companies will supply the Japanese company Canon which last year announced a £10m scheme to manufacture inkjet printers for the European market at its plant in Glenrothes.

Competition among British regions is set to intensify following the announcement by industrialists in the English Midlands of a planned regional business group to challenge rivals in northern England, Richard Wolffe writes in Birmingham. The group, to be called the Economic Development Forum, will draw together private and public sector representatives in an attempt to attract more international investment to the east Midlands. The new forum will be modelled on rival bodies such as the Northern Business Forum and the North West Partnership, which lobby for their respective regions. The Midlands forum will be the first of its kind in the region since the abolition of regional economic planning councils in 1979.

N Ireland elections may fail to draw weary voters

By John Kampfner in Belfast

Northern Ireland's 1.1m voters are being asked today to elect representatives to a body that has no home and will have little influence.

The 110-strong forum that will arise out of one of the world's more convoluted electoral systems will shadow the real business – the all-party talks on the future of the province which begin on June 10.

Yet the results will have an *important influence on those* talks. Some 23 parties are contesting the seats for the forum. Sinn Féin has said it will not take up any seats it wins although it will seek to join the negotiations.

The top 10 parties at the forum will send delegations to the talks. Although each group will be represented equally at the negotiations, the size of their mandate will help determine bargaining strength.

The polls were conceived by Mr John Major as an artful means of extricating the UK government from its morass over the issue of paramilitary weapons. The prime minister announced the idea of elections in January in response to a report it had commissioned from an international team led by Mr George Mitchell, a former majority leader in the US Senate.

The British used the elections as a device for selling to unionists the dropping of their insistence on the IRA handing over some of its arms before Sinn Féin, its political wing, was allowed into talks. Instead Mr Mitchell spoke of the political and military aspects being addressed in tandem.

Both Sinn Féin and the mainly Catholic Social Democratic and Labour party accused Mr Major of erecting another hurdle to talks and of seeking a repetition of the failed Stormont assembly in *Northern Ireland in the 1970s* and 1980s.

The government of the Republic of Ireland urged London to downgrade the role of the convention. The forum that was finally agreed will be little more than a talking shop, modelled largely on the Forum for Peace and Reconciliation established by Dublin shortly after the first IRA ceasefire in August 1994. Its work was suspended after the resumption of republican violence last February.

The people of Northern Ireland will be casting their ballot for the 20th time in 23 years. The last elections, to the European Parliament in 1994, produced a turnout of only 49 per cent.

However, apathy could be exacerbated by the voting procedure. In general elections Northern Ireland, in line with the rest of the UK, operates a first-past-the-post format. Boundary changes have increased the number of constituencies to 18. In local government and European elections proportional representation (PR) is used.

The Ulster Unionists, the largest pro-British party in Northern Ireland, have always benefited from the traditional method, as their support is concentrated in specific seats, while the Democratic Unionists and the SDLP lobbied for PR. The various systems have in the past produced considerable tactical voting, with the DUP emerging as the top party in 1994, as against a third place and 13 per cent of the vote in the 1992 general election.

Under a compromise, voters are being called upon to cast only one vote for their preferred party. The 18 seats will each return five delegates. Each party that receives a factor of one sixth of the total will return one member. An even more difficult statistical operation will determine who gets the rest.

Finally, the aggregate number of votes across the province will be counted to apportion two extra seats to each of the top 10 parties. This device was designed to ensure participation in the talks by the two small parties representing loyalist paramilitaries.

It is no wonder that the system has been described as a "dog's dinner".

Canadian banks in court today over Canary Wharf

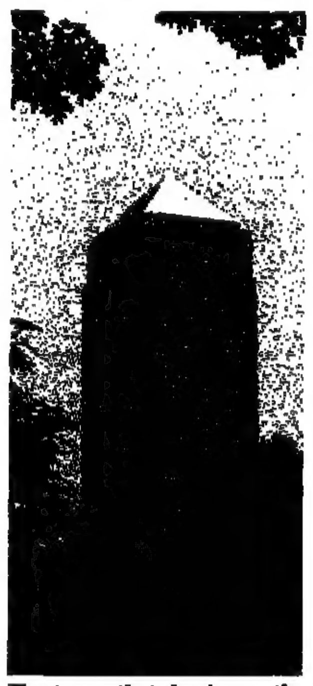
By Robert Rice in London and Bernard Simon in Toronto

Clifford Chance, the UK's largest law firm, will today challenge the jurisdiction of the Canadian courts to hear a lawsuit brought by four Canadian banks which are suing it for C$1.3bn.

The banks incurred heavy losses in the early 1990s from the financial collapse of the Canary Wharf development in London's Docklands district. They allege that they lost out in the restructuring of the development as a result of incorrect information provided by Clifford Chance in a 1989 legal opinion.

Writs were filed by the banks simultaneously in London and Ontario last year and the law firm maintains the case should be heard in England. It will argue at a hearing in Toronto today that most of the documentary evidence and witnesses are in London and that the administration of Canary Wharf was governed by English law.

The law firm refuses to discuss its indemnity insurance cover or say whether a higher level of cover available in the UK is one of the reasons it is challenging the jurisdiction of the Ontario courts. Canary Wharf was put into administration in May 1992 following the collapse of its parent, Olympia & York Developments, the property group owned by Canada's Reichmann family.



The tower that dominates the Canary Wharf complex

The claim of the four banks stems from a £400m "equity loan" which they provided to O&Y in 1989 to capitalise Canary Wharf's main holding company. O&Y pledged its shares in the holding company as security for the loan. The banks are Royal Bank of Canada, Canadian Imperial Bank of Commerce, Bank of Nova Scotia and National Bank of Canada.

The banks say Clifford Chance advised them that the holding company was a private limited company when it had unlimited liability. They allege that they were therefore unable to enforce their collateral without becoming liable themselves for the project's entire debt. They also say that as "equity loan" providers they were excluded from the restructuring and lost out to the providers of a £500m "construction loan" which was secured by a physical mortgage over Canary Wharf.

Clifford Chance will argue that the banks would have made the loan no matter how it was structured, given the heady climate in the property market in the late 1980s and the Reichmanns' reputation.

Three of the four banks also participated in the £500m "construction loan" and the law firm maintains they knew from the start that as equity lenders they would lose their money if O&Y got into difficulties because the construction lenders would take security over the physical assets.

The banks will argue today that the case should be heard in Canada because the loan was concluded in Toronto and the documentation was completed under Ontario law.

UK NEWS DIGEST

Gas pipeline to Belgium financed

The interconnector project to build a subsea gas pipeline from the UK to Belgium has finalised a £450m ($684m) leasing agreement to finance the construction. The deal, with Abbey National, is believed to be one of the largest leasing agreements with a single bank in the UK. The agreement, which can be raised to £500m, completes the financing package for the project, which is also receiving £350m from the European Investment Bank.

The interconnector will link the UK with the gas grids on mainland Europe and open the way for exports of UK gas. The pipeline is owned by nine international gas companies: Amerada Hess, BP, Conoco, Distrigaz, Elf, Ruhrgas, Gazprom, British Gas and National Power. *David Lascelles, Resources Editor*

Ministry to sell Gulf war gold

The Ministry of Defence has decided to sell its stock of 16,000 gold sovereigns carried by Royal Air Force pilots and soldiers in the elite Special Air Service during the Gulf war. Sovereigns were equivalent to £1 until notes were introduced early this century but a few are still struck for commemorative purposes each year and these days the gold makes them worth much more than the standard £1 coin. The sovereigns being sold by the ministry were bought especially for the Kuwait conflict and were sewn into the uniforms of air crews and special forces in case they needed to barter their way out of trouble behind enemy lines.

Presentation packs of sovereigns, with certificates signed by Sir Peter de la Billière, commander of the British contingent in the Gulf, will go on sale later this summer. They are expected to sell for around £60 each, with the sale as a whole raising £1m towards the £22bn annual defence budget.

Bernard Gray, Defence Correspondent

Balls 'produced by child labour'

The Euro 96 football championship, which starts on June 8, faced allegations last night that authorised souvenir balls were being produced by child labour in Pakistan. Leaders from international trade union organisations claimed children aged under 14 were used in making balls bearing the Euro 96 logo. The balls are labelled as having been licensed by Uefa, the European football association.

An estimated 80 per cent of the world's footballs are produced in Pakistan, mainly around the north-eastern city of Sialkot. The souvenir balls cost about £4 ($6.08) to make and retail for an estimated £50 in Europe. As many as 100 companies have been licensed by Uefa to produce goods and services for the championship. The accusations were questioned last night by Mr Gerhard Prochaska, managing director of ISL, the company given exclusive marketing rights by Uefa for Euro 96. He said he had been in touch with the three companies licensed to produce the championship logo – Umbro in the UK; Tramondi in Switzerland and Smits Plastics in the Netherlands – which had told him that "nothing illegal was being done". Union leaders want Fifa, football's world governing body, to introduce a code of conduct for manufacturers and subcontractors authorised to make products for future events.

Robert Taylor, Employment Editor

New chief for tourist board

Mr David Quarmby was yesterday appointed chairman of the British Tourist Authority and the English Tourist Board. Mr Quarmby resigned in March as joint managing director of J.Sainsbury, the supermarket group. He takes up his new post officially on Monday in succession to Ms Adele Biss.

Diane Summers, London

The hunt is on for treatments for a condition neglected by the drugs industry in the past, writes **Daniel Green**

Genetics wrestles with obesity

If there is one area that demonstrates how commerce is helping drive basic research in genetics, it is obesity.

Historically, the spotlight of medical research has fallen on high-profile diseases such as cancer, heart disease and Alzheimer's. These are conditions that strike down innocent individuals.

Surveys of public attitudes, by contrast, show that obese people are often thought to be the authors of their own misfortune rather than suffering from a disease.

Obesity, meanwhile, has been low on the drugs industry's list of priorities. Not one of the top 150 best-selling drugs on the market is aimed at treating the condition. And the medical profession has tended to prescribe self-treatment such as dieting and exercise.

Statistics suggest, however, that obesity is in the same league as the world's most serious diseases in terms of relevance, risk to health, economic cost and demand from the consumers for treatments.

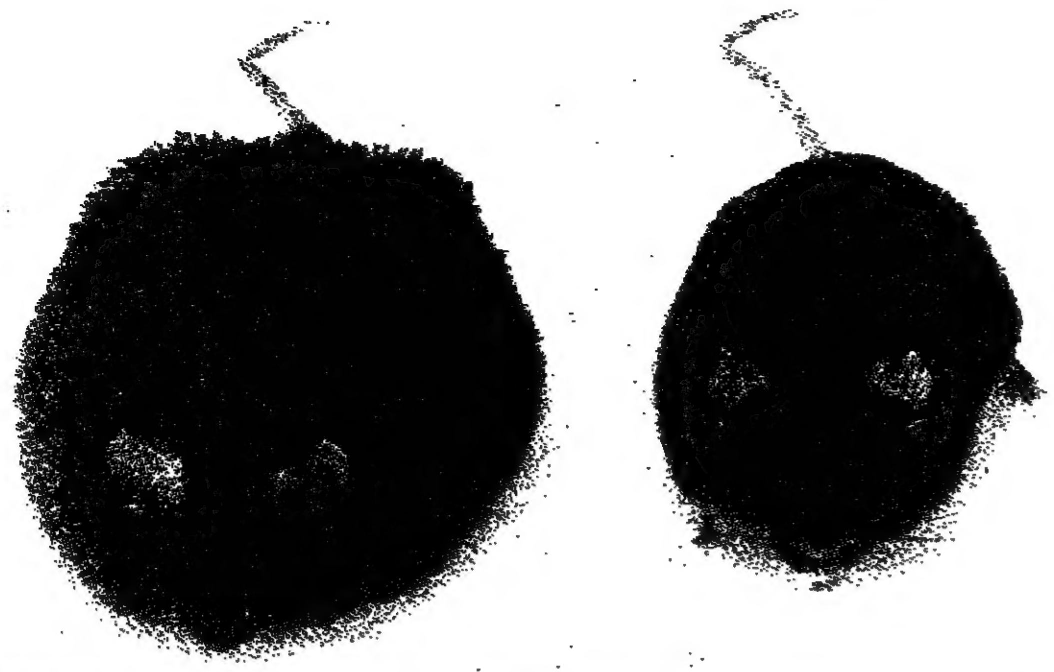
The World Health Organisation says that up to 20 per cent of Europeans and white Americans are seriously overweight. The figures are higher for minority groups and regions of the world outside Asia and Africa. Obese people have an increased risk of contracting heart disease, strokes, diabetes, gall bladder disease, osteo-arthritis, cancer, varicose veins and infertility.

Researchers at the Université Paris-Dauphine last year calculated the direct medical costs to France of obesity at FFr12bn (£1.5bn), about 2 per cent of the country's total healthcare costs. They said that the estimate was conservative but in line with other countries' views that obesity cost between 2-5 per cent of healthcare spending. Globally, this could mean that up to $100bn (£66bn) is spent each year on dealing with the medical consequences of obesity.

In addition, there are non-medical markets for weight control, said to be worth at least $10bn a year in the US alone. And there are social costs: obesity is correlated with low academic and career achievement.

As if to underline the demand for treatments, overweight people can go to great lengths to try to deal with their condition. Apart from special diets and exercise regimens, some have their jaws wired together so that they can only consume liquids. Others resort to gastric surgery in which food is physically diverted so that less is digested. Most of the drugs used have serious side-effects, not least of which is that they are addictive.

All this effort seems to be of little use. The incidence of obesity is increasing: the proportion of obese people in the UK, for example, more than doubled between 1980 and 1993 to 16 cent of women and 13 per cent of men.



Mice in two sizes: the mouse on the left has a shortage of leptin. An injection of the protein brings it back to normal size

In the past, treatments have relied on dealing with the environmental and psychological causes of obesity. Stephen Bloom, professor of endocrinology at the Hammersmith Hospital in London, says that obesity was almost unknown in Victorian times. Since the genetic make-up of species changes over thousands of years rather than a few decades, the rapid increase in obesity must be because people eat more and/or exercise less.

Although environment and behaviour must play some part, other factors are important, says Bloom. He points to Scandinavian research on siblings brought up separately. It shows a strong correlation between close blood relationships and a tendency to be overweight. His estimate is that "maybe 50 per cent of obesity has a genetic root". That implies that there might be treatments for obesity based on genetics.

This idea was given a critical boost in 1994 with the discovery at Rockefeller University in New York of a gene, named ob, linked to obesity in mice. Within months, researchers found the protein leptin, the production of which is triggered by the ob gene. They discovered that injecting leptin made obese mice lose weight.

Finding the gene triggered widespread commercial interest – the Californian drugs company Amgen paid $20m for the rights to the gene.

Earlier this month Amgen announced that it had started the first human clinical trials with leptin. If they are successful, a drug could be launched after 2000.

The excitement over the ob gene has been tempered by findings that obese people do not have defective ob genes. Moreover, they have high levels of leptin, casting doubt on the idea that injecting more might cut weight.

These observations have been countered by arguments that obesity may not be a genetic "disorder" in the way that Down's syndrome is, but could be part of a natural genetic variation in the way that height or eye colour are.

As Bloom says: "Any species that may have to deal with periodic food shortages or famine should have fat members." He says that "overweight" people may have played an important role in keeping communities going in times of food shortage.

In addition, high levels of leptin in overweight people do not mean that they will not be susceptible to treatment with further doses. Some diabetics have naturally high levels of insulin and can nevertheless be treated with extra insulin.

This apparent paradox may be the result of defective "receptors" in the body that accept leptin (or insulin). That could mean that normal amounts of leptin did not have a strong enough effect and an individual put on weight. Extra leptin might end up triggering a normal number of receptors. Only clinical trials will resolve this issue.

Scientists are not relying on leptin to treat obesity. Four further genes linked to obesity have been identified since the discovery of the ob gene. They have been named the agouti, tub, db and fat genes.

Michael Steinmetz, vice-president of pre-clinical research and development at Roche in the US, says that the most promising are agouti, tub and ob. The mechanisms of these genes are now being studied.

In addition, there are ways of exploiting the knowledge of the ob gene other than injecting leptin.

Roche, in collaboration with the biotechnology company Millennium, is looking at what happens once leptin has made contact with the leptin receptor on the surface of cells. As with all receptors, there follows a cascade of chemical signals inside the cell. Perhaps a drug for obesity would work by interfering with the process.

This route has the advantage possibly of being more specific than injecting leptin because leptin receptors exist all over the body and only a small proportion are likely to be linked with obesity.

Yet another way forward arises from the observation that the effects of injecting leptin last for several days, while it takes only a few hours without food for one to feel hungry.

The search for proteins that are the short-term equivalents of leptin has already uncovered at least two.

One, called GLP-1, triggers satiety. Rats injected with GLP-1 eat less than those that do not. Another, called neuropeptide Y (NPY), has the opposite effect: injections stimulate feeding.

Bloom has worked on GLP-1 but says that NPY is more likely to lead to a drug because chemically it is easier to make a molecule that blocks a biochemical process than one that encourages it.

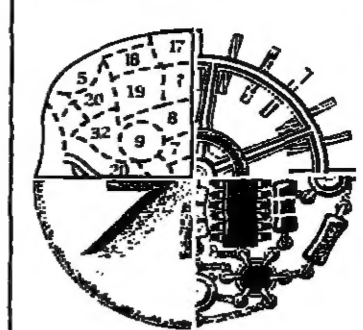
Such work is at the very earliest stages of research. Steinmetz says: "Unless we are very lucky, we still have a long way to go. I'd bet that the advances will happen with the agouti and ob genes."

Bloom, too, warns that many obstacles lie ahead. He says, for example, that, like leptin, NPY protein receptors also exist all over the body "with perhaps just 1 per cent of them related to appetite". Little is known of the physiological effect of blocking all the receptors.

None of this uncertainty is likely to hold back research into treating obesity. The demand is too great and the need, both medical and economic, poorly met. Revolutionary new treatments based on recently acquired genetic knowledge are unlikely this decade, but the chase is on.

The series on human genes continues next month with a look at breast cancer.

Worth Watching · Vanessa Houlder



Final flicker for faulty fluorescents

The constant flickering of faulty fluorescent strip lights can blight the life of people who work near them. Philips Semiconductors believes it has overcome this problem with the development of an electronic starter switch which is more reliable than conventional switches because it has no moving contacts. If the fluorescent tube does not ignite at the first attempt, the starter will make no more than six additional attempts to light it.

Philips Semiconductors: The Netherlands, tel 243532509; fax 243533218.

Digital analysis in breath test

Breathalysers might eventually be replaced by digital speech analysis, according to US researchers.

Scientists at Georgia Tech and Indiana University have conducted preliminary research that shows that intoxicated speech is characterised by abrupt changes in pitch and energy and unsteady opening and closing of the vocal chords.

The researchers envisage that speech analysis could be performed by computer, based on a mathematical formula that could calculate the probability that the person was intoxicated.

Georgia Institute of Technology: US, tel 404 8943444; fax 404 8946983.

Crackdown on Internet security

Security issues are still preventing many businesses from offering services on the Internet. But V-One Corporation of Maryland has developed a package that combines smartcard, encryption and firewall technology designed to tackle the security problems of electronic commerce.

Unauthorised employees and customers are issued with smartcards that allow them to log on to a business's computer system that runs the Smartgate package. After mutual authentication, a one-off code is generated that encrypts the information transmitted across the Internet.

As well as allowing financial transactions to take place over the Internet more securely, the software can also be used to make an internal computer network more secure. The Smartgate technology is distributed by Internet Smartware in the UK.

Internet Smartware: UK, tel (0)1753 811068; fax (0)1628 660414.

X-ray processing the dry way

3M, the diversified manufacturing group, has developed an X-ray processing technique that does not require a darkroom or water-based chemicals.

Its research suggested that radiologists and radiographers were frustrated with the cost and fuss of traditional wet chemical processing. 3M believes that its new system has cost and environmental advantages since hospitals will not need to buy and dispose of processing chemicals or install specific plumbing, air conditioning and darkroom.

The technique allows silver halide film to be processed by applying heat at a very precisely controlled temperature. The resulting image has the same diagnostic quality as those produced by traditional techniques.

3M: UK, tel (0)1344 858875; fax (0)1344 858248.

GPS keeps tabs on trains

A railway public address system that automatically informs passengers about their destination has been developed by Finnyards Electronics, a Finnish engineering company.

A GPS receiver gets signals from navigation satellites to provide information about the train's location to an accuracy of 100m. This triggers recorded announcements, which are stored on a CD-Rom, when predetermined points in the journey are reached.

Finnyards: Finland, tel 312450111; fax 312130188.

ARTS

Cinema/**Nigel Andrews**

Magic in eccentric America

FARGO
Joel Coen

FROM DUSK TILL DAWN
Robert Rodriguez

MY LIFE AND TIMES WITH ANTONIN ARTAUD
Gérard Mordillat

At Cannes the Coen brothers claimed that their thriller *Fargo*, which won Joel Coen a richly deserved best director prize, is based on a true story. But they tended to chuckle mysteriously and look shifty when asked for names and dates.

Is it all a con? Is there no real-life prototype at all for the Minnesota car salesman, played here with wirebrush hair and nervous grin by William H. Macy, who connives at his own wife's kidnapping with the aim of taking a cut of the ransom money put up by his unsuspecting father-in-law?

And did no godforsaken crooks such as those impersonated by Steve Buscemi (short and nervous) and Peter Stormare (tall and spectral) ever parlay hostage-taking into homicide by killing one inquisitive patrolman and two innocent drive-by witnesses?

Even if they did, we doubt they saw the funny side of things. The Coens – director Joel and co-writer/producer Ethan – do so triumphantly here. *Fargo*, their best film since *Miller's Crossing*, happens at the point where horror intersects with provincialism. Set in the makers' home state, the story sidelines Minneapolis, not to mention the eponymous Fargo featured only in a prologue, for the knee-high snow and eccentric neighbourliness of Brainerd.

The axe-carrying statue of its native son Paul Bunyan, rearing surreally at the city limits, prefigures the film's nasty denouement. And the town's five-months-pregnant police chief Marge Gunderson (Frances McDormand) establishes the keynote of goofy backwoods bonhomie. This wonderful actress with the surprised eyes and high fuzzy voice also seems to have an extra set of teeth in her mouth, no doubt devoted to chewing life up before swallowing it.

Everyone does that here. The singsong Scandinavian-American accents signal Nordic caution. For Marge, even obtaining a description of Buscemi from a garage hand is like pulling a wisdom tooth. He: "Funny kind of guy." She: "What way?" He: "Oh. General kind of way."

Everything seems tainted with diffidence or innocence, including the deeds of blood. Midway through the violent kidnapping of Mrs Macy, Stormare sustains a small cut to his finger. "Unguent. I need unguent!" he intones, diverting solemnly for a smash-and-grab raid on the bathroom cabinet. And after several deaths, debacles and near-misses, the movie's plot ends in a forest clearing where the sight of a dismembered human leg (still wearing its boot) being pushed into a wood-chipping machine seems merely the last insouciant flourish in a story full of them.

Ever since *Blood Simple* and *Raising Arizona* the Coens have had an eye for the absurdity of evil. In *Fargo* none of the lawbreakers has much of a clue about the consequences of their acts, and scarcely more of a clue about the practicalities.

Macy's ransom-coveting car salesman cannot even handle his impatient, gung-ho father-in-law (Harve Presnell), who precipitates disaster by being the only character to know his own mind. In the kingdom of the snowblind, there is none more dangerous than he who sees.

The Coens see everything, yet their wry omniscience is never smug. There is a wonderful overhead shot, like an abstract painting, of a snow-covered parking area studded geometrically with cars and boxed trees. For some seconds we cannot even work out what it is. Then the familiar asserts itself, touched by that brief magic of non-recognition.

The whole of *Fargo* is like that. A genre movie of deceptive double-take simplicity makes the old seem fresh and the fresh seem kissed with a mischievously wise and atavistic wit.

Frances McDormand in the Coen brothers' 'Fargo', their best film since 'Miller's Crossing'

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From Dusk Till Dawn, another comedy thriller about hostage-taking, drives south in search of absurdity. Just across the Mexican border a chase story about two bank robbers (George Clooney, Quentin Tarantino) fleeing the law with a kidnapped preacher (Harvey Keitel) and his two children turns, with no warning or by-your-leave, into a monster movie.

One moment we are pounding the Texas blacktops with guns, police searches and slick dialogue. The next we are in an Aztec bar regreting we did not take out vampire insurance. The clientele turns into ravening batpersons even as they eat and drink. The strip dancer has become a snake-woman. And the floor by climax-time is beginning to resemble that of an abattoir.

The film is directed by Robert *Desperado* Rodriguez from a screenplay that Tarantino wrote before *Reservoir Dogs*. We could have dated it ourselves. As juvenilia go, it can barely toddle. Only the pre-Mexican section is partly saved, by the nervy unpredictability of the performers.

While Clooney and Keitel clench charismatic cheekbones, Tarantino steals several scenes as a bespectacled psychopath for whom all women are candidates for rape and all storekeepers and waiters for racism or bigotry. "Ain't there a law 'gainst retards servin' food to the public," he snarls when sitting down in a diner staffed by Mongoloids.

This is the Tarantino we love to loathe, spitting out his prejudices in the form of cant-seeking anti-PC missiles. In his best movies talk is its own special effect, a fact lamentably unrecognised here. Once set down in Mexico, the film expends needless money and ingenuity on visual gimmicks, ranging from the death toll flicking up in lighted numbers on a fruit machine-style scoreboard to the fists that crash straight through victims' faces to the man with a crotch-flap in his trousers that opens up to reveal a pointing gun.

*

My Life And Times With Antonin Artaud must qualify as the movie title least likely to cause pavement congestion outside the average cinema. Yet Gérard Mordillat's homage to the French actor, stage director and existentialist has its charm. Shot in scarified black and white, as if exposed to an atom blast during processing, the film walks, talks and improvises like an old Godard movie.

There is something Godard-like, too, about Sami Frey's Artaud, an ill-shaven gnome-like hermit in a beret and long raincoat. He rails, muses, philosophises and invents the Theatre of Cruelty. And the Paris cafés, as they always do in such films, sit in a sacramental pall of cigarette smoke, dimly aware that history is being made at a table.

Theatre/**Alastair Macaulay**

Comedy warms cool open air

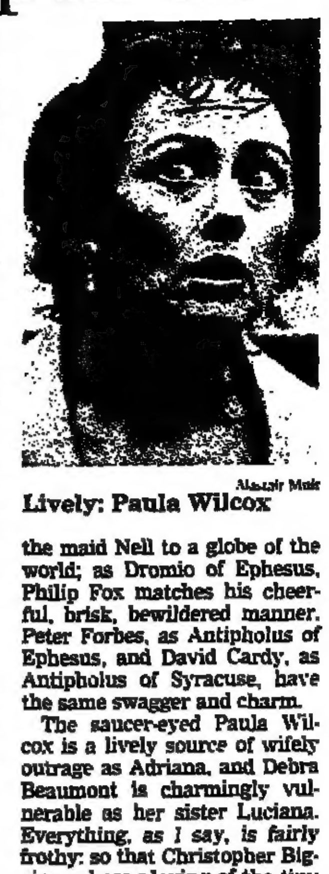
Blankets, anoraks and mink coats were worn by this year's opening-night audience at the Open Air Theatre, Regent's Park, on Tuesday and yet it was good to be there again. Good to be back at the Open Air, where there is always a time when birdsong threatens to drown the actor, and good to see Shakespeare's *Comedy of Errors* again, with its high confusion of double identical twins.

Ian Talbot's staging of this play has no great subtleties and no deep urgencies, but it tells its tale with panache. There is a dash of light-cartoon exaggeration in almost all the playing, and this carries the day. *The Comedy of Errors*, after all, is a farce: its story is not just about the confusions between identical-twin masters and identical-twin servants, it is also about the sexual imbroglios this catches them in.

This is the closest Shakespeare came to the Roman-Italian comic style associated most with Terence and Plautus, and it is fascinating to compare it with his more moving and more cypress-shadowed comedy of twins, *Twelfth Night*. More poignancy could be found in it, true, but I have known productions much more vulgar than Talbot's. It is curious that the classic Rodgers-and-Hart musical version of this play, *The Boys from Syracuse*, (brilliantly staged in the Open Air Theatre by Judi Dench in 1991), has passages of lyricism and heartbreak ("You have cast your shadow on the sea", "Falling in love with love") that are more touching than Shakespeare's original ever seems to offer in the theatre.

Claire Lyth's designs are pretty, and vaguely Edwardian. Her masterstroke is in costuming the two Antipholuses and two Dromios so cannily that, even though the actors of the roles are not utterly look-alike, they sometimes look enough alike to confuse us. There really are moments when you have to ask: Now, which one is this one?

But this is also due to Talbot's skill in directing and casting. As Dromio of Syracuse, Gavin Muir delivers very funnily his smutty comparison of the maid Nell to a globe of the world; as Dromio of Ephesus, Philip Fox matches his cheerful, brisk, bewildered manner. Peter Forbes, as Antipholus of Ephesus, and David Cardy, as Antipholus of Syracuse, have the same swagger and charm.



Alastair Muir

Lively: Paula Wilcox

The saucer-eyed Paula Wilcox is a lively source of wifely outrage as Adriana, and Debra Beaumont is charmingly vulnerable as her sister Luciana. Everything, as I say, is fairly frothy: so that Christopher Biggins, whose playing of the tiny role of Doctor Pinch is camp and over-the-top, fits into the production more agreeably than Michael G. Jones, whose awfully earnest way with Egeon (father to the Antipholuses) is a bore.

These days, of course, this story of long-sundered twins would be staged not in the theatre but on the Oprah Winfrey show. As one Dromio and one Antipholus would be re-introduced at long last to the other Dromio and the other Antipholus – from whom they had been separated at birth and yet with whom they had sometimes shared the same town – Oprah would cry a little and the audience would get blinky too. One day some smart-alec director will stage Shakespeare's play that way; but until then it is good to laugh at his Ephesian antics in the open air.

In repertory at the Open Air Theatre, Regent's Park.

Wigmore Recitals/**Richard Fairman**

Living up to media hype

The power of the media to create a star has never been greater. On two successive evenings last week the Wigmore Hall was sold out, and television cameras and record company executives jostled in the foyer – the draw being a pair of young singers who have been propelled into the top league with media help.

It was the TV coverage at the Cardiff Singer of the World competition in 1989 that brought Dmitry Hvorostovsky to notice. The exhilaration of seeing the young, super-confident, Russian baritone exhibiting his prowess for the first time in the west won him a loyal following, which is with him to this day.

Hvorostovsky's Wigmore recital was sold out twice over, in spite of the fact that the second half was devoted to the premiere of a new song-cycle by Georgi Sviridov.

Entitled *Petersburg*, the cycle comprises nine poems by Alexandre Blok from the early years of the century. They are mostly gloomy, the outpourings of "the children of Russia's dreadful years", and Sviridov sets them with restraint as a simple bass line with voice above, part minimalist, part folk-song.

The invention is fairly thin, but Hvorostovsky filled the arching vocal lines with rich expression. The cycle was written for him and Sviridov evidently knows his strengths, as long-breathed, legato singing is what Hvorostovsky has always done best.

Wherever Tchaikovsky or Mahler, the evening's other two composers, wrote in the same style, the singing blossomed. The rest was thick, unvaried and loud, in spite of Mikhail Arkadiev's intelligent accompaniment. Hvorostovsky has yet to rise to the higher level he has long promised.

Among his audience was Cecilia Bartoli, whose own recital was due the next night – a nice touch. Bartoli's popular fame is thanks to her recordings, which have enjoyed exhaustive marketing by her record company. Her live performances are relatively few, most likely because Bartoli's career does not depend on them.

Hers is a fairly small mezzo voice, so she also has to pick her live engagements carefully if they are to enhance, rather than detract from, her reputation. The Wigmore Hall is ideal and this recital showed off her talents with an immediacy that she is unlikely to manage in a big opera house.

Her programme concentrated on the still quite limited repertoire she has explored on disc – Italian songs by Schubert and Beethoven, Rossini and Bellini, and Haydn's *Arianna a Naxos* cantata.

Within this small compass, however, Bartoli brings everything vividly to life. There is something of the authentic Italian style about her singing, in the way she carries the voice along the vocal line and gets the words to tingle with feeling, that is special to her and to be cherished.

Perhaps some of her effects (like her breathy excitability) are starting to sound like mannerisms. And György Fischer reduced the pianist's role to a soft-focus background. Otherwise, this was pure delight.

Cecilia Bartoli's recital sponsored by Risk Publications.

Theatre/**David Murray**

Stirrings and sympathy

At the Watford Palace Theatre we have a revival of *Kindertransport* by Diane Samuels, co-winner of the Verity Bargate Award four years ago. Already it has been widely seen abroad, since its subject triggers natural sympathy: what happened to those German-Jewish children who were packed off just before the last war to the safety of English families, perhaps never to see their own parents again.

On the one hand, Samuels' play is obviously a product of conscientious research. She talked at length to several of those "children", now in their 60s, and to some of *their* children; and she assures us that although her heroine Eva is a fiction, "most of what happens to her did happen to someone somewhere".

One does not doubt it: studded with little documentary details, the re-lived memories of *Kindertransport* have the ring of reported speech, and a sincere anxiety to re-tell it like it was.

On the other hand, Samuels' *drama* (not quite the same thing as the play) is essentially concerned with mothers and daughters – emphasised by the curious fact that the Eva, Diana Quick, was last seen as the identical linchpin in *If We Are Women*, a gentle Canadian piece: daughter of two very different "mothers" (one Jewish), mother herself of a daughter stepping uncertainly into adulthood, husbandless through death or divorce.

Here her role has an extra twist, being shared with a very young actress who plays her junior wartime self. Not really as a "before" to her "after"; because the child's experiences of flight, exile and final determination to grow up English are constantly intercut with grown-up Eva's present – i.e. 1980s' – problems. The persistence of (Jewish) memory thus dominates the action.

And yet what actually happens has a great air of contingency. Yes, Eva's unhappy reunion with her mother – Ruth Mitchell adequately noble and suffering, the sole survivor from the original cast – is crippled by her rejection of her first tongue and even her given name (she has chosen to become an "Evelyn"). Yes, her daughter Faith (Dido Miles) is driven later to hysterical renouncings when she discovers Eva's concealed origins. But *why*, exactly?

Though the successive little crises between each available pair in turn are ritualised screaming-matches, they spring up very suddenly upon obscure motivations. As the younger Eva, Julia Malewski, making her first stage appearance, copes valiantly against fearful odds: having to play her from 9 years old to 17, *and* variously in well-spoken English (to represent plain German), bursts of real, "native" German, and heavily accented English for her first years in Manchester. We admired her efforts, but never believed.

Quick's elder Eva was brittley poised and strung-out in modern mid-Atlantic tones, a far cry from Jean Boht's pragmatic Northern kindliness as her second mother. Did that matter? I was discombobulated by the feeling that this was a women's play, and that I was of the wrong sex to fathom what was really stirring.

Performances until June 15.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

EXHIBITION
Rijksmuseum Tel: 31-20-6732121
● Disegni. Drie eeuwen Italiaanse tekenkunst uit eigen bezit: 80 drawings by Italian artists from the 15th to the 18th century, including works by Pierio di Cosimo, Sebastiano del Piombo, Frederico Barocci, Carlo Marata and Giambattista Tiepolo; to Aug 4

■ BARCELONA

EXHIBITION
Fundació Joan Miró
Tel: 34-3-3291909
● Alain Fleischer. Photographs: part of the Primavera Fotogràfica. Fleischer's work demonstrates the desire to avoid the limits of a single artistic discipline. Coinciding with the exhibition is a cycle of Fleischer's films; to Jun 16

■ BERLIN

CONCERT
Konzerthaus Tel: 49-30-203090
● Berliner Sinfonie-Orchester: conductor Gilbert Varga and soprano Françoise Pollet in works by Schubert, Chausson and Mendelssohn; 8pm; May 30, 31; Jun 1
Philharmonie & Kammermusiksaal
Tel: 49-30-2614383
● Kammer-Sinfonia Berlin: with conductor Alun Francis perform works by Mozart and Françaix; 8pm; May 31
EXHIBITION
Neue Nationalgalerie
Tel: 49-30-2662662
● Georg Baselitz: retrospective devoted to the work of Georg Baselitz – some 100 paintings and 10 sculptures from European and American collections; to Sep 29

■ COPENHAGEN

DANCE
Det Kongelige Teater
Tel: 45-33 14 10 02
● Le Conservatoire or A Newspaper Courtship: a choreography by Bournonville to music by Hspaully, performed by the Royal Danish Ballet; 8pm; May 31

■ DUISBURG

DANCE
Theater der Stadt Duisburg
Tel: 49-203-30090
● Rambert Dance Company London: perform the choreographies Stabat Mater by Robert Cohan to music by Vivaldi, Rooster by Christopher Bruce to music by The Rolling Stones, and Axiome 7 by Ohad Naharin to music by J.S. Bach; 7.30pm; Jun 1
EXHIBITION
Wilhelm-Lehmbruck-Museum
Tel: 49-203-2832630
● Altersbildnisse in der Abendländischen Skulptur: old age in Western sculpture. The 72 works include Egyptian, Greek and Roman sculptures and works by artists such as Rodin, Lehmbruck, Kollwitz, Picasso, Marini and Dali; to Jun 30

■ LEIPZIG

CONCERT
Gewandhaus zu Leipzig
Tel: 49-341-12700
● Es ist ein trotzig und verzagt Ding, BWV176: by J.S. Bach. Performed by the Gewandhausorchester and the Thomanerchor, conducted by Georg Christoph Biller; 3pm; Jun 1

■ LEWES

FESTIVAL
Glyndebourne Opera Festival
Tel: 44-1273-812321
● Glyndebourne Festival Opera: this year's edition, initiated by John Christie and his wife, soprano Audrey Mildmay, features 74 performances of six operas: Handel's Theodora, Berg's Lulu, Tchaikovsky's Eugene Onegin, Rossini's Ermione, R. Strauss's Arabella and Mozart's Così fan tutte. The resident orchestra, the London Philharmonic plays for all performances except Theodora, for which the Orchestra of the Age of Enlightenment returns; to Aug 25

■ LONDON

AUCTION
Christie's South Kensington
Tel: 44-171-5817611
● Wildlife Art: the third sale entirely devoted to Wildlife Art comprises 300 lots. Highlights include a picture by Wilhelm Kuhnert (1865-1926) of "A Lion Resting On a Rocky Outcrop" and a selection of works by Zimbabwean artist Grant Kennedy; 10.30am; May 31
EXHIBITION
Design Museum
Tel: 44-171-3786055
● 100 Masterpieces. Furniture that made the 20th century: highlights include the zig-zag chair by Gerrit T. Rietveld, E1027 by Eileen Gray, the Louis 20 chair by Philippe Stark, B3 (Wassily) by Marcel Breuer and the Well Tempered Chair by Ron Arad; to Oct 6
National Portrait Gallery
Tel: 44-171-3060055
● The Room in View: the importance of the background and its contribution to the image of the sitter. The paintings, drawings and photographs span three centuries and are organised in four sections: artists at work, scientists at work, other people at work, and people at rest; to Jun 2
THEATRE
Olivier Theatre Tel: 44-171-9282252
● The Prince's Play: Victor Hugo's Le Roi S'Amuse in a new translation by Tony Harrison. Directed by Richard Eyre and performed by The Royal National Theatre. The cast includes Michael Bryant, Ken Scott and June Watson; 7.15pm; May 30, 31; Jun 1 (also 2pm)

■ MADRID

EXHIBITION
Fundación Cultural Mapfre Vida
Tel: 34-1-5811628
● Postrimerías. Alegorías de la muerte en el arte español contemporáneo: death as a theme in the work of Spanish contemporary artists, including Picasso, Dali, Solana, Saura and Tapiès; to Jun 30

■ MUNICH

OPERA
Nationaltheater
Tel: 49-89-21851920
● Tosca: by Puccini. Conducted by Marcello Viotti and performed by the Bayerische Staatsoper; 7pm; May 31

■ NICE

OPERA
Opéra de Nice Tel: 33-92 17 40 00
● Turandot: by Puccini. Conducted by Klaus Weise and performed by the Opéra de Nice; 8pm; May 31; Jun 2 (2.30pm)

■ PARIS

CONCERT
Théâtre National de l4Opéra - Opéra Garnier
Tel: 33-1 42 66 50 22
● Orchestre de l'Opéra National de Paris: with conductor Gary Bertini perform works by Berlioz, Ravel and Debussy; 8pm; May 31
EXHIBITION
Musée d4Orsay
Tel: 33-1 40 49 48 14
● Au Moyen Orient: photographies d'Henry Sauvaire (1831-1896): 40 photographs taken in the 1860s in the Middle East by the amateur photographer; to Jun 23

■ PRAGUE

CONCERT
Rudolfinum Tel: 42-2-530293
● BBC Symphony Orchestra: with conductor Andrew Davis and percussionist Evelyn Glennie perform works by Bax, MacMillan and Brahms. Part of the Prague Spring Festival; 8pm; Jun 1

■ VIENNA

CONCERT
Musikverein Tel: 43-1-5058681
● Wiener Akademie: with conductor Martin Haselböck and pianist Melvyn Tan perform Mozart's overture to Le Nozze di Figaro, Piano Concerto in C major, KV503, and Symphony in G minor, KV550; 7.30pm; May 31
OPERA
Wiener Staatsoper
Tel: 43-1-514442960
● Madama Butterfly: by Puccini. Conducted by Michael Halász and performed by the Wiener Staatsoper; 7.30pm; May 31

■ WASHINGTON

OPERA
Lisner Auditorium
Tel: 1-202-994-6800
● Poliuto: by Donizetti. Conducted by Micaele Sparacino and performed by the Opera Camerata of Washington; 8pm; Jun 1

■ ZURICH

OPERA
Opernhaus Zürich
Tel: 41-1-268 6666
● La Bohème: by Puccini. Conducted by Nello Santi and performed by the Oper Zürich; 7.30pm; May 31; Jun 2 (8pm)

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WORLD SERVICE

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18.00
Financial Times Business Tonight

A search for global relevance

Patti Waldmeir on Wolfensohn's first year at the World Bank

There is a messianic quality about James Wolfensohn, president of the World Bank. For better or worse, it is the quality that defines his leadership.

Passion, compassion and charm are among his greatest weapons, and he has used them skilfully in the first year of his presidency, which began on June 1 last year. He has chosen his battles carefully and well, and won more than a few of them. But to judge from the pace so far, it is going to be a long campaign. And even as the first year's milestone approaches, the destination remains disturbingly unclear.

The mission is obvious: Mr Wolfensohn must remake the World Bank in line with the prevailing orthodoxy of private sector-led development, to save it from obscurity in the new millennium.

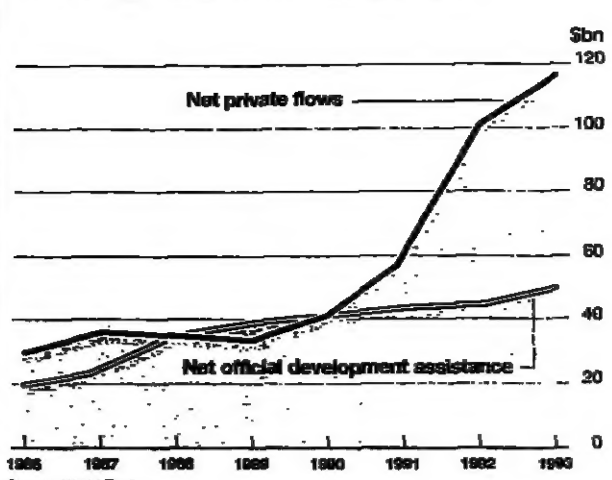
The figures tell a story of declining World Bank influence: since 1990, private sector capital flows to the developing world have quadrupled, while official development assistance has stagnated: with $170bn in private capital making its way to the developing world, the bank's $5bn in concessional loans to the poorest countries pales by comparison.

But mere numbers cannot capture the depth of the bank's crisis of confidence, nor reflect the revolution in institutional psychology wrought since Mr Wolfensohn's arrival. Bank staff had grown used to vilification: for years the institution was condemned as bloated, bureaucratic, remote and dictatorial. Mr Wolfensohn vowed to deal with each of these criticisms in turn, and within a matter of months he had succeeded, not in changing the fundamentals but in altering the rhetoric of public discourse about the bank. He gave it an image transplant – and for that he earned the devotion of most of the 10,000 staff.

Reflecting on the first year of his five-year term, Mr Wolfensohn gives himself high marks for external relations, and so does almost everyone else. The new president, a blunt-spoken former merchant banker born in Australia but naturalised American, spent 100 of his first 300 days "in the field". It was there that he discovered the central reality of the developing world: a burden of poverty that the private sector alone cannot shift.

James Wolfensohn: World Bank president

The surge in private capital flows



Source, World Bank

He called on prime ministers and supped with third world royalty, relentlessly worked his network of contacts among first world leaders, and even threw a birthday party for US President Bill Clinton at his home in the luxury resort of Jackson Hole, Wyoming. For the first time since the legendary Robert McNamara, who headed the institution from 1968 to 1981, the bank had a president who was friendly enough with "Helmut" and "Jacques" and "Bill" to use first names. Mr Wolfensohn put the bank back on the map.

He listened not only to clients and shareholder governments, but to non-governmental pressure groups which were always the bank's sternest critics. But he also spent an unprecedented amount of time bonding with the bank's "clients", holding hands with toothless old men and embracing African finance ministers, unashamedly physical in the ways valued most on that continent. He wept, often and publicly, and talked about what moved him: an African businesswoman who made charcoal from green banana skins; or the vision of destitute African children reciting lessons in their squalid schoolroom.

For as James Wolfensohn says himself, he is "a very emotional man". And he takes the issue of development very personally. "You've got to have a passion for development, and I've got a passion which grows. It's like a new love. It's all I think about. I wake up in the morning thinking about it and I go to bed thinking about it." This is no mere job for Jim Wolfensohn; it is a mission.

His energy, compassion, and intolerance of bureaucracy made rapid converts of much of the staff. After more than a decade of drift under three uninspiring presidents – Tom Clausen, Barber Conable, and Lew Preston – there was a demand for change from within the bank. Mr Wolfensohn came to office and said all the right things: he would "break the armlock of bureaucracy" and dismantle the personal fiefdoms run by some senior managers; he would shine a bright light into the murkiest recesses of a personnel system based largely on patronage; and he would instil a "results-based" culture where staff would be judged on whether projects worked, not by how much they lent.

Little of that has happened yet. Loan approval procedures have been streamlined, to cut approval time in half. Power is being decentralised: for the first time "country directors" will live in the client country, and draw on new "technical colleges" of experts back home. But much work remains to be done to reshape the collective mind of an organisation which remains cautious, slow, hierarchical and confused. That will demand clever management of a kind which Mr Wolfensohn – who never ran an organisation larger than the boutique Wall Street investment bank which bears his name – has yet to prove himself capable.

Disarming as always, Mr Wolfensohn is the first to admit that he is disappointed with the pace of change. Twelve months of "change management" has brought great upheaval and uncertainty without making much concrete difference.

"If we've screwed up it has been in the implementation of the change strategy," Mr Wolfensohn said in an FT interview. "'Change management' has been overmanaged. We've spent too much time on it." That is a view which will delight much of the staff, which despite its strong enthusiasm for reform, is showing signs of "change fatigue". It is time now to stop talking and start implementing change.

That will be difficult for two reasons: one is the personality of Mr Wolfensohn himself. Former and present colleagues say he is defensive, thin-skinned and insecure – so much so that he repeatedly asks "how did I do? how did I do?" after every big public appearance. Mr Wolfensohn says himself that he demands an explicit and total commitment from staff; where it is not forthcoming, he suspects a plot to undermine him.

Mr Wolfensohn's charm will probably ensure that he is forgiven such faults. But the second difficulty is his unwillingness to lead be setting a grand strategy. Bank staff have high expectations of their boss, expectations matched or exceeded by the outside world: they will want to know, and soon, the answer to the biggest question of all. Where exactly is Mr Wolfensohn taking the bank? And what is its role in a world where many countries will no longer need its lending? If it is destined to be a niche player in a future of private sector-led development, what is its niche? What will it do in Africa, where its record is questionable but where it remains a vital source of financial support?

The bank's staff, its shareholders and clients need a clear and focused vision of its future. But Mr Wolfensohn has not only declined to provide one: he does not think the demand itself is valid. "I have no global strategy, there is no global strategy for development," he says. He says he will set strategy by country, re-evaluating each bank project against each client's particular needs, rather than setting a few clear broad lines to take the bank into the millennium.

"When people say I don't have a strategy I'm quite defensive about it. I have 100 strategies!" he says, enumerating the range of development problems he intends to tackle. He manages to sound like a moral crusader when what the bank of the 21st century needs is a tough manager. Everyone wants Mr Wolfensohn to start making hard choices, and soon. Unless he does, he risks dissipating the energy unleashed by his arrival.

BOOK REVIEW · Leyla Boulton

OUR STOLEN FUTURE
By Theo Colborn, John Peterson Myers and Dianne Dumanoski
Little Brown and Company, 306pp, £18.99

Synthetic time-bomb's circumstantial evidence

The revelation this week that UK government scientists have found chemicals in baby milk that can impair the fertility of laboratory animals focuses attention on the impact of synthetic chemicals on human health.

The offending substances, phthalates used to soften plastics, have been found in virtually every brand of baby formula on the UK market. Produced from raw materials derived from oil and natural gas, they mimic oestrogen, the female sex hormone.

According to *Our Stolen Future*, synthetic chemicals such as phthalates turn up in all sorts of places, including plastic toys and pesticides as well as foodstuffs. More sensationally, it claims the commonest of such chemicals have gender-bending potential, damaging both male and female reproductive systems in the longer term.

Much of the evidence is circumstantial. The book cites studies showing a fall in the sperm count of younger men born since a post-war explosion in the use of such chemicals by industry. But it also suggests that these chemicals could prove to be responsible for a wide range of problems including hyperactive behaviour in children and diminished IQ.

There is well-established proof of the damage some synthetic chemicals can cause to laboratory animals and wildlife. For example, dioxins are not just known carcinogens but are believed to reduce sperm counts, suppress the body's immune system and cause brain dysfunction.

Alligators born in a Florida lake affected by a spill of a pesticide called dicofol in 1980 suffered reproductive disorders long after the water was cleaned up. And PCBs, used in products from paints to lubricants, disrupt the reproductive systems of wild animals and continue to circulate in nature long after being banned in many countries.

As Al Gore, the US vice-president, says in the foreword, the book raises "compelling and urgent questions which must be addressed". He likens its potential effects to *Silent Spring*, Rachel Carson's seminal work which warned of the dangers of pesticides 30 years ago.

Written by US scientist Theo Colborn, together with John Peterson Myers, an environmentalist, and Dianne Dumanoski, a journalist, this book provides the first guide to the subject for the general reader. It says there are at least 51 man-made chemicals known to have the potential to interfere with the hormones that drive reproductive and neurological development.

Unintentionally it also provides some grim comfort for parents alarmed by this week's revelations about baby formula. It points out that particularly high concentrations of synthetic chemicals such as PCBs and dioxins are found in breast-milk in Europe and the US, though there is no evidence of phthalates.

Scientists have known for 30 years that high levels of synthetic chemicals have been accumulating in body fat and breast milk through the food chain. More recently, researchers have discovered that such chemicals can leach out of plastic containers into their contents. They can also cause damage in quantities as small as one part in 10,000 billion.

But despite these important findings, knowledge of the chemicals' overall effects on human hormones remains paltry. The book claims this is mainly because the lion's share of research money for investigating the effects of environmental contamination on human health still goes into cancer studies.

The book admits that even if more research were carried out, it would be difficult to identify a definitive link between the chemicals and reproductive problems, partly because it would be necessary to know which chemicals had been present in the mothers of men with reduced sperm counts.

The authors argue persuasively however that at the very least the effects of chemicals on human hormones must become a research priority. More ambitiously, they recommend a shifting of the burden of proof in deciding which chemicals are safe, requiring the chemical industry to establish their safety.

At present synthetic chemicals must be proved dangerous before anything is done about them. In the past, it often required visible birth defects to establish such proof – as for example, with thalidomide.

But the discovery in the 1970s of infertility in the daughters of women given a synthetic oestrogen drug called DES to help their pregnancies indicated that chemicals could disrupt hormones without producing birth defects. The authors say that each new compound should be tested exhaustively to demonstrate that its effect on health and the environment is trivial.

The scare over baby milk illustrates once again the fact that environmental policy-making, at least in the initial stages of dealing with a problem, is driven more by panic than by rational debate or the exhortations of environmentalists. For this reason, public concern over phthalates in baby milk is more likely to prompt action on these chemicals than *Our Stolen Future*. But the book has an important role to play in setting the terms of the informed debate society must now hold on the use of these chemicals.

Our Stolen Future *is available from FT Bookshop by ringing FreeCall 0500 418 419 (UK) or +44 181 964 1251 (outside the UK). Free p&p in UK.*

·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e.mail: letters.editor@ft.com Translation may be available for letters written in the main international languages.

Time not yet right to instigate big trade round

From Mr Joseph A. Greenwald.

Sir, In your May 28 editorial "WTO at sea" you describe the "disappointing results of negotiations over the past year" (financial services, telecommunications and maritime transport) and conclude that progress in liberalisation can be made only through a "comprehensive trade round". I believe such a conclusion is unrealistic and premature.

Ever since it was clear that the General Agreement on Tariffs and Trade was going to be turned into a broader, permanent World Trade Organisation, there has been an unofficial debate about whether the traditional, large Gatt-type negotiating rounds would have to be continued or whether there could be continuing negotiations.

The three "failures" cited in your leader do not, in my view, demonstrate that "trade-offs" are the key to further "global liberalisation". In fact, all three negotiations were left over from the comprehensive, eight-year-long Uruguay Round. On financial services, the US made clear that existing non-discriminatory treatment would be continued and the negotiations among the others remain in place. On telecommunications, the negotiations were continued, not abandoned. Maritime transport is a sector in which the US, for political reasons and a shrinking fleet, has not been able to participate in previous negotiations; the outcome should have been no surprise to anyone.

Thus, the result so far has been negotiations extended in two new and very difficult sectors and one old sector at yet another impasse.

But what has been happening elsewhere on further liberalisation? Most recently, according to the FT, the US has put its remaining tariff negotiating authority on the table in the Asia Pacific Economic Co-operation forum. Duty reductions or elimination in this context can easily be multilateralised. In the transatlantic dialogue, much progress has been made toward an important goal of world traders – agreement on mutual recognition of testing and standards conformity. In this area, no Congressional authority is required for US participation. There are other fields, like government procurement and rules of origin, in which progress can be made without a "comprehensive round".

Rather than concluding now – when the US is obviously not likely to be able to participate fully – that preparation of a new round should be launched, countries should turn their attention and efforts to areas in which progress can be made. As these discussions and negotiations proceed over the coming 18 months to two years, it will become clearer what can be done without a large trade round and which items can only be handled in the broader context.

At that point, a better judgment can be made about the need for a "comprehensive trade round".

Joseph A. Greenwald,
former US ambassador to the European Communities and Assistant Secretary of State for Economic Affairs,
1616 H St. NW,
Washington, DC 20006, US

Shareholders furious about National Power buy-back

From Mr Christopher Daws.

Sir, Lex ("National Power", May 18) is a quarter right about PowerGen's share buy-back. Some individual taxpayers, but not all, prefer a selective buy-back to a universal dividend on which they would pay higher-rate tax. However, others are non-taxpayers and are furious at being left out in the cold while institutions profit enormously from the buy-back.

It was effected at a price barely 1 per cent below the market price, leaving those lucky institutions with a clear profit, including their tax credit, of over 20 per cent on their holding within a day.

Surely companies could buy their shares back at prices much lower than the prevailing market price? And if companies made the buy-back open to all shareholders (like rights issues), the price would be kept as low as possible to the benefit of the remaining shareholders.

Small shareholders are fed-up with the preferential treatment of the big institutions. The London Stock Exchange used to run a level playing field. If it is abandoning its principles so casually, what hope for its future?

Christopher Daws,
Sheepscombe House,
Jacks Green,
Sheepscombe,
Stroud GL6 7RA, UK

Leave EU to those who want it

From Mr Hans Schloten.

Sir, If John Major and the British government are so fed-up and disillusioned with Brussels and the EU, why don't they withdraw from the club?

Mr Friedrich Blase makes the case for withdrawal in his letter (May 24). Perhaps it is time for the rest of the EU to ask the UK to leave so the Union can develop as the vast majority of its members wish.

Hans Schloten,
Rynlaan 15,
2105 XH Heemstede,
Haarlem,
The Netherlands

Seoul should reverse bar on investment in N Korea

From Mr Aidan Foster-Carter.

Sir, As the author of two studies on Korean reunification for the Economist Intelligence Unit and of a monthly North Korea report published in Seoul, I welcome Martin Wolf's article "Korea's German lessons" (May 28). With what an older era would have called the Korean question clearly coming to a head, it is high time western public opinion started paying more than fitful attention to the peninsula.

Korean reunification, long an impossible dream, is now a very possible nightmare – if it were to follow the German route. Paradoxically, the best way to assist unification in the long run is to prevent it in the short run. It is much better that North Korea should continue to exist as a state, but receiving aid and investment from South Korea for economic reform and recovery, than for it to collapse like East Germany – which would be chaotic as well as costly.

A more perverse paradox, however, is that the South Korean government, while professing hope for a "soft landing" in the north, is currently acting in a way more likely to provoke collapse (or worse). The *chaebol* (big industrial groups) are keen to put money into North Korea, but it is Seoul rather than Pyongyang that has been stopping them – just as it forbids its US and Japanese allies to offer more food aid. Yet at the same time, through the KEDO consortium, South Korea is giving the north $4bn of new nuclear reactors. Where is the consistency?

Of course, North Korea is nasty and belligerent. But it will become more so, not less, if left to rot. It is not too late for Kim Young-sam, in the final two years of his presidential term, to lift up his eyes beyond domestic manoeuvring, and adopt a consistent, far-sighted and statesman-like policy of reaching out to the reform element in Pyongyang.

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FINANCIAL TIMES

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Thursday May 30 1996

India seeks a government

India's democracy is a wonder of the world. Notwithstanding its poverty, this vast country has managed to sustain vibrant electoral politics, the parliamentary elections earlier this month being no exception. But the country also needs a stable, reforming government. If the fragmentation of its politics continues, India may even have to contemplate radical constitutional reform.

After the collapse of the two-week-old administration of Mr Atal Behari Vajpayee's Bharatiya Janata party (BJP), the president, Mr Shanker Dayal Sharma, has turned to the small parties on the left. But the chances that the United Front, headed by Mr H.D. Deve Gowda, chief minister of Karnataka, will provide stable government are not high, since it comprises 14 regionally based parties, some of which are in conflict with others over local issues. A United Front government will be dependent on the support of Mr P.V. Narasimha Rao's Congress party, with 136 seats, which may provide some stability. But Congress will also try to poach members.

Equally destabilising could be the United Front's lack of a common approach to economic reform, although its dependence on Congress should prevent it from reversing what has been achieved. Since it contains a few enthusiastic reformers, such as Mr P. Chidambaram, the former commerce minister, the United Front government might even choose to pursue reform vigorously. But it is rather more likely not to attempt anything radically new.

Coalition of parties

Perhaps the greatest threat posed by such a government is to India's fragile fiscal stability. Since each regional party has a strong incentive to insist on the largest amount of spending and the least amount of taxation within its own area, a coalition of regional parties could bankrupt India.

What would happen if the United Front government failed? One possibility would be for Congress to seduce enough members to sustain itself in power. Another would be a fresh election. One outcome of such an election might be for the BJP to win the additional 3-4 percentage points of the popular vote needed to give it an outright majority. The BJP would then gain power outright on only about a quarter of the overall vote.

These possibilities raise two deeper concerns about Indian politics. The first is the peculiar outcomes that can result from first-past-the-post constituency elections in so fragmented a party structure. In the last election, for example, Congress won only 136 seats, to the 194 of the BJP and its allies, even though it gained 28 per cent of the popular vote to the 20 per cent of the latter.

Electoral reform

The second concern is the growing dominance of politics by regional, caste and communal parties which base their support on what divides the citizens of this extraordinarily diverse country rather than on what they have in common. Taken much further, this tendency might make stable government quite impossible.

These are constitutional, rather than narrowly political worries. One possible cure might be electoral reform, with a switch to proportional representation, with hurdles to eliminate small parties. Another would be the entrenchment of a more decentralised federal structure. The states would then be forced to take increasing responsibility for their fates and the central government would be restricted to providing the framework within which they operate, in addition to defence, foreign policy and a sound currency.

It may also be necessary to create an all-India political institution to focus the country's sense of national identity and provide it with an executive less dependent on fragile parliamentary majorities. The obvious solution would be an executive presidency.

The specific solutions are, at this stage, less important than identification of the problem. The question is how to make democratic politics produce effective government at the all-India level. It is beginning to look as though politics as usual are no longer able to provide the answer.

Nuclear power going cheap

The forthcoming sale of British Energy, the nuclear utility, will be the British government's last major privatisation before the general election; it will also be one of its most difficult. Nuclear power is complicated and controversial: many people would rather it remained in state hands to ensure that it was managed for safety rather than profit. Last time the government tried to sell it – in 1990 – the City of London was scared off by the clean-up costs. Hence, no doubt, the decision to promote it with television commercials showing athletes rather than atoms.

But the case for selling off nuclear power remains strong, and the government is right to persevere. As previous electricity privatisations have shown, the scope for improving efficiency in the generation of electricity is much larger than was supposed when the industry was state-owned. It can best be realised once companies are operating in the private sector. The nuclear industry's notoriously high costs and poor operating performance will be most effectively addressed if it is subjected to commercial discipline. Privatisation will also bring much-needed additional competition to power generation.

Opponents of the sale claim that British Energy's liabilities are still unquantifiable and that the company may even have a negative value. Although investors are right to be anxious about safety and the costs of cleaning up obsolete nuclear plants, British Energy is being sold as a tightly regulated entity with funds specifically earmarked for its long-term liabilities. These are based on conservative estimates of the eventual cost of dismantling its stations. These worries should not, therefore, dominate the sale. In any case, only the modern, cleaner portion of the industry is to be sold, so the risks will be smaller.

Deregulation

Much the greatest uncertainty facing British Energy is, ironically, the prospect that competition in the newly deregulated UK power industry will drive electricity prices down to levels at which British Energy cannot compete. Since its plant must keep running day and night (as "base load"), the nuclear industry cannot influence prices. This is because the wholesale electricity market has been structured so that prices are set by the fossil fuel stations, which supply extra power at times of maximum demand.

The outlook for electricity prices is therefore likely to be the largest single issue for investors. Yet the consensus within the industry is that prices will weaken over the next few years as efficiency continues to improve to meet the growth in competition. Even BZW, financial adviser to the government on the issue, is predicting only flat electricity prices for the foreseeable future. So analysts have scaled down their valuations.

Question of price

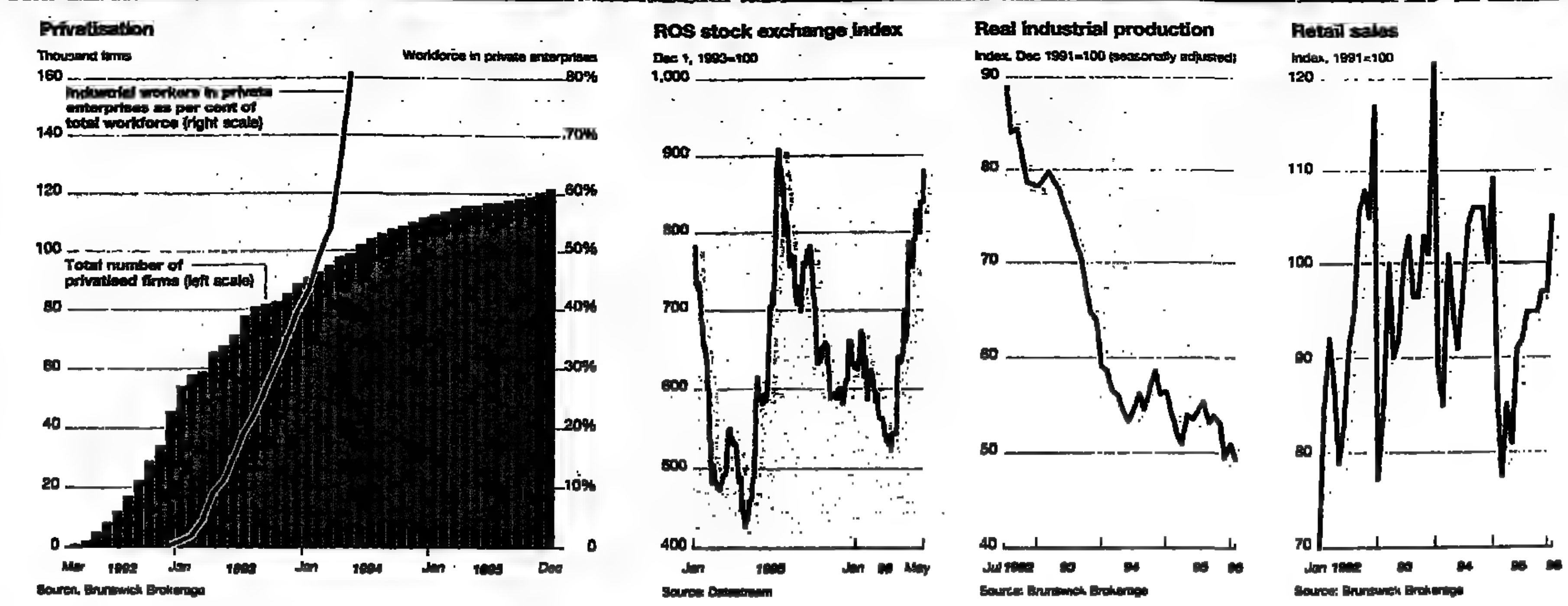
The largest and much the most difficult remaining question, therefore, is how much British Energy should be sold for. The government has a duty to extract the largest possible price from the purchasers. But it is obvious that British Energy will have to be sold for far less than the cost of the assets.

British Energy will be the world's first publicly quoted nuclear generator, so there are no obvious guides as to how markets will value it. More important, though, than the value of British Energy's physical assets will be the amount of cash it can generate to pay dividends. Hence the fact – made much of by the Labour opposition – that the expected sale price of £2.5bn will not even cover the cost of British Energy's newest power station, Sizewell B, completed last year at a cost of £3bn.

One obvious conclusion is that on present market valuations, Britain's nuclear industry appears to have been a very poor investment. It would be wrong, however, to emphasise past mistakes so much that they depress the price obtained by taxpayers.

This is a necessary privatisation. For too long, the nuclear industry has sheltered under government ownership and been allowed to squander public money on its inefficiencies. The sale will finally inform the taxpayer what this much-subsidised industry is really worth.

Russia's economy: growing role for the private sector



Russia's unfinished revolution

With communists waiting in the wings, the country's market reforms depend on next month's election result, says John Thornhill

Russian revolutionaries have always struggled to translate grand designs into reality in their vast and varied country. The Bolsheviks' calls to nationalise property and emancipate women in 1917 were misunderstood by the town council of Vladimir east of Moscow, which promptly nationalised all female virgins and declared them communal property.

Russia's modern revolutionaries – the free-market economic reformers – have successfully reinvented Russian capitalism since 1992, but they too have seen their visions of a new society distorted by the realities of post-Soviet life.

The attractions and blemishes of their economic creation will play a decisive role in next month's presidential elections – which will in turn determine whether President Boris Yeltsin can press ahead with Russia's capitalist experiment or whether the country slips back towards its Communist past.

"The essence of the forthcoming polls is that they provide a chance to vote for a smooth and civilised development of Russia," says Mr Yegor Gaidar, the former prime minister and chief architect of Russia's market reforms. "But this chance, as it so happens, critically depends on Yeltsin's victory."

At the outset, the principal goal of Russia's market reformers was to smash the legacy of 74 years of central planning and remove the state from the economy. According to one of the authors of Russia's privatisation programme, the reformers' aim was to eradicate socialism, "best defined as a system of extreme political control over economic activity".

In some respects, these goals have been accomplished with startling speed and success. In Soviet times, government expenditure was equivalent to about 70 per cent of gross domestic product. That ratio had halved by 1995 as the country's vast military-industrial complex crumpled. The government conducted the biggest privatisation programme in history and abruptly axed cheap credits to state industry.

Russia now spends less on defence as a proportion of GDP than neutral Sweden and boasts 40m shareholders – more than in the rest of Europe combined. But this deliberate reduction in the role of the state has been accompanied by a further, unintentional shrinkage of government economic activity. The inability of the state to collect taxes from evasive companies and individuals has tied its hands, resulting in the near-collapse of the welfare state and its much-publicised failures to pay federal employees and pensioners on time.

This contraction of the state has coincided with an explosion of private-sector activity. The liberalisation of Russia's financial markets has enabled 2,500 commercial banks to emerge. The best have exhibited great entrepreneurial vigour, even if many of them are woefully undercapitalised.

About 900,000 small private businesses have also been created, with many more unregistered enterprises flourishing in the unofficial economy – estimated to be as much as 50 per cent of all economic activity. "Entrepreneurial firms are like the phoenixes rising from the ashes of the state sector," says Mr Tom Tirone, a US consultant who studied 100 private Russian firms. "They have a low and flexible cost structure, are generally run by exceptionally smart people, and have diversified into a range of activities, from manufacturing radioactive isotopes to selling cans of tomatoes."

Russia's ambitious mass privatisation programme, which tipped 14,000 state companies into the private sector within 14 months, has also proved an effective if brutal lesson in market economics for many managers of the country's giant industrial enterprises.

Some of these companies have transformed themselves into western-style corporations which place shareholder value above government-determined production targets. The most conspicuous example is Lukoil, the giant Russian oil company, which has issued proxy shares in New York, implemented a restructuring plan inspired by McKinsey, the US management consultancy, and set about developing joint oil projects with western companies in the Caspian Sea.

Russia's infant equity market is already beginning to reward success. At $4.5bn, Lukoil's market value is almost five times that of Surgutneftegaz, another vast oil concern with comparable reserves but a hostile attitude to outside investors. Lukoil has begun exploiting that advantage to raise cheap finance via international convertible bond offerings and is spending some of the proceeds diversifying into petrol retailing in St Petersburg – which Surgutneftegaz regards as its home market.

The transformation of the economy promoted by Russia's economic reformers, however, remains only half-complete. The rapid attempt to stitch together the body of a capitalist economy has created some Frankenstein-like economic organisations, which still lurk in the shadows of the state economy and shun the competitive glare of the free market.

Companies such as Gazprom, the giant gas monopoly which accounts for about 8 per cent of Russia's GDP, have ostensibly been privatised but in practice remain accountable neither to the state nor to shareholders. The company, which retains close links with Mr Victor Chernomyrdin, the prime minister, appears to enjoy big tax privileges but discloses little information to private shareholders.

In many other areas of economic activity there is still more form than substance to Russia's market economy. Prices often reflect the restrictive powers of private monopolists – or criminals – rather than the forces of supply and demand.

Moreover, while Russia may have embraced the concept of private property it has not yet entrenched effective legal means to protect it. A recent study for the Federal Securities Commission, the industry regulator, concluded that in the vast majority of cases outside shareholders were unable to force managers to restructure or invest in new projects. Partly this is because outside shareholders are small and fragmented: only 17 per cent of companies surveyed were majority-owned by independent investors. Even the most active shareholders have found it difficult to assert their rights in the face of obdurate management and a weak legal regime.

"Unfortunately, economic liberalism has not been accompanied by an equal sense of responsibility," says Mr Dmitry Vasiliev, the commission's chairman, who is striving to improve the accountability of company directors and foster good corporate governance.

But perhaps the greatest failing of Russian economic reform has been that the dividing line between the state and the private sector remains blurred and that the process of de-politicising the economy appears to have stalled. Political influence can still count for more than market power or legal rights. For example, President Boris Yeltsin still publicly upbraids ministers for failing to transfer state credits to a combine harvester factory in Krasnoyarsk which he has personally promised to support.

The most glaring example of Russia's hybrid form of capitalism is in Moscow itself: mayor Yuri Luzhkov's administration controls the land market and has a direct equity stake in 80 restaurant chains, property developments and hotels.

This close connection between local government and business ensures that deals get done. But private traders allege the administration conspires to maintain food prices artificially high in Moscow's markets by turning back independent traders on the city's ring road.

Arguably, a second Yeltsin administration might complete the process of de-politicising the economy by pursuing tax reform, developing effective systems of corporate governance, expanding capital markets and cracking down on crime and corruption. The International Monetary Fund's recent $10.1bn three-year loan to Russia is in part tied to a transformation of the economy along such lines; the IMF hopes the reforms will enhance the credibility of capitalism in the eyes of Russia's weary electorate and help spark an investment boom.

But the question that most concerns Russia's capitalists is what will happen if the Communists win next month's presidential election. This week, the Communist party launched its economic programme. Although much of it remains confused, it promises greater state support for domestic manufacturers. By means of higher tariffs on imported goods, state subsidies, and fixed energy prices, the Communists hope to stimulate domestic industrial output.

At the very least, this means that ministerial contacts in Moscow are likely to be more important to the success of an enterprise than the competitiveness of the goods it produces. But if pursued to an extreme, the programme could reignite inflation and undermine the economic reforms pursued for the past four years.

· OBSERVER ·

Not so felix culpa

■ Dacia Felix hasn't proved to be a very lucky name for Romania's largest private bank, staggering on thanks solely to gigantic loans – equivalent to around 2 per cent of last year's GDP – from the central bank.

When local entrepreneurs, including members of a anti-Hungarian nationalist organisation, set up the bank in the ethnically-mixed Transylvanian town of Cluj in 1991, they named it Dacia Felix.

The appellation the Romans conferred on Romania was deemed auspicious for an organisation designed to help the country pull through its post-communist economic crisis.

It invested heavily in local businesses, sponsored the national football team in the 1994 World Cup, as well as the annual Romanian tennis open, and opened offices in Dijon, Caracas and Athens.

Sadly, the game would seem to be up with the grand patriotism, now it has fallen out with its main shareholder Sever Muresan, the one-time tennis star on hobnobbing terms with George Bush. Muresan is alleged to owe Dacia Felix a cool $300m plus.

Only the new management, installed in March in the splendid headquarters in Cluj, seem to be preserving a strange degree of optimism. Indeed, they still seem to think the missing millions will reappear any day.

They may be closing the Caracas and Dijon offices, but Athens and the 51 local outlets live on – and staff cuts have not been exactly brutal.

Then again, the optimism has its limits – management is also back at the central bank with the begging bowl in hand. Just in case, you understand.

Not tailor-made

■ Spare a thought for Anton Schneider, chief executive of Klöckner-Humboldt-Deutz, the German engine-maker which looks as if it may go belly up after alleged fraud by a number of leading executives has led to losses of DM650m.

Since leaving the Boston Consulting Group in 1989, not a lot has been going right for 44-year-old Schneider.

He managed, initially at least, to restructure Dörries Scharmann, the engineering company belonging to the ill-fated Bremer Vulkan group which last month said it was bankrupt.

But, sensing perhaps that something was amiss at Bremer Vulkan, where Friedrich Hennemann, the former boss, was empire-building, Schneider upped sticks and moved to KHD.

One year exactly after Schneider arrived in Cologne, it now emerges that KHD executives had, since 1993, been taking on plant orders way below cost - funnily enough exactly the same thing that the Bremer Vulkan executives had been doing.

What all this says about German auditors, who appear to have slept soundly through extensive account manipulation at both companies, remains to be seen.

Future imperfect

■ The process of picking the next chairman of the Commodity Futures Trading Commission seems to have been hijacked by some election year horse-trading not wholly relevant to the business of futures regulation.

Senator Lauch Faircloth, a conservative Republican from North Carolina, has promised to block the appointment of Washington lawyer Brooksley Born to the chair of the CFTC. Her transgression? She is portrayed – by Faircloth – as a Friend of Hillary.

Faircloth has homed in on the notion that Born might be asked to stand judgment over the propriety of the Clinton spouse's famous cattle futures trades, in the course of which, in the early 1970s, she transformed a $1,000 trading stake into a $100,000 profit.

That piece of high finance was scrutinised in detail more than a year ago by people definitely not friends of Hillary. But Faircloth would like yet another investigation, timed ahead of the November elections, and would like Ms Born's nomination held until then.

This in turn has upset Senator Bob Dole, who wants his aide, David Spears, confirmed as a CFTC commissioner, and who had promised to speed Born's nomination through Congress before he leaves to busy himself with his presidential campaign next month.

Born herself is keeping a low profile for now, though she did tell a confirmation hearing that she has just a passing, and purely professional, acquaintance with Mrs Clinton.

Follow my leader

■ The conviction among Russia's Communists that President Boris Yeltsin will falsify the results of the June 16 presidential poll is good for the local stock of black political humour.

The latest suggestion is that on June 17, Yeltsin phones the head of the Central Electoral Commission and asks for the results.

"Gennady Zyuganov [the Communist party leader] won 55 per cent of the vote," the official replies.

An ominous silence follows.

"But don't worry, Boris Nikolaiyevich, you won 60 per cent."

The Financial Times

100 years ago

Cyclone at St. Louis

One of the minor effects of the tremendous cyclone at St. Louis was to damage the St. Louis Breweries to the tune of £8,200. The cable conveying the information adds plaintively: "We are not insured against cyclones." The shareholders may indeed congratulate themselves on having escaped cheaply from so great a risk, especially as the manager adds, with characteristic American energy, "The effect will not be of a serious character, our business going on as usual." Evidently it takes much more than a cyclone to stop the business of an American brewery.

50 years ago

U.S. Coal Strike Over

Washington:- The U.S. soft coal strike has been settled, it was announced officially here. The U.S. House of Representatives, by 230 votes to 106, passed a sweeping permanent measure to curb industrial strikes and other trade union activities. The measure has been sent to President Truman. While the House was endorsing the measure, the Senate prepared for a quick vote on the President's striker-draft proposal under which the President could call up into the armed Services men who refused to work in industries taken over by the Government.

FINANCIAL TIMES
Thursday May 30 1996

Cabinet adopts bill paving way for privatisation

Strike threat over France Télécom sell-off plan

By David Owen in Paris

The French cabinet yesterday adopted a bill to convert France Telecom into a joint stock company, paving the way for the sale early next year of some shares in the state-controlled operator, but also raising the possibility of fresh strikes by its largest union next month.

Mr François Fillon, telecommunications minister, said the bill would go to the country's parliament "in the next few days" and that the group, valued at between FFr130bn and FFr200bn ($39bn), would be incorporated on January 1, 1997.

Yesterday's announcement followed an agreement with three of France Telecom's six unions over a restructuring that could allow the organisation to shed more than 15 per cent of its 150,000 staff in the next 10 years.

But the group's largest union reacted with hostility, saying it was against incorporation and that it had called a strike for June 4. One official said the union would try to make this June like December 1995, when the country was seriously disrupted by a wave of public sector strikes.

An earlier anti-privatisation strike in April was given only a muted response by union members, however, with less than half the public utility's workforce taking part. This compared with the 65 to 75 per cent who took part in protests against a change in France Telecom's status between 1993 and 1995.

Most unions appear to have accepted government assurances that the company will continue to give its employees civil servant status until 2002, with accompanying job security rights.

Yesterday's announcement was hailed by Mr Jacques Chirac, the French president, as "an exceptional achievement" and a necessary one to cope with the next century. The increasingly strong competition in the industry will be underlined today when Bouygues, the French construction group, enters France's fast-growing mobile phone market.

Initially, the service will only be offered in the Paris region, but the company aims to cover 90 per cent of the French population by the end of 1998. A bill to open the French telecoms market completely in 1998 is before parliament.

The government has promised to retain a 51 per cent stake in France Telecom, with a maximum of a further 10 per cent reserved for employees. Because of the size of the organisation, which was the fourth largest telecoms operator in the world in terms of 1994 turnover, the remaining 39 per cent is likely to be sold in at least two tranches.

The accord agreed with the unions envisages that between 20,000 and 25,000 France Telecoms employees would take early retirement in the next 10 years, in addition to the 35,000 that are due to retire.

Banco do Brasil issue flops as losses continue

By Jonathan Wheatley in Sao Paulo

Banco do Brasil's R$8bn (US$8.03bn) new share issue has flopped, forcing the Brazilian government to pick up about three-quarters of the shares and thereby consolidate its control.

The offer was part of a restructuring and recapitalisation programme to overhaul Brazil's largest bank after several years during which it was run more as an instrument of public policy than as a business.

But the bank's losses of R$4.2bn in 1995 and R$1.6bn in the first quarter of this year kept investors away and sent its shares tumbling.

Apart from R$1.1bn bought by the bank's pension fund and R$500m by the National Development Bank, preliminary figures showed that only about R$22m of shares had been sold when the offer closed on May 20, the bank said yesterday.

The issue was priced at R$12.85 and R$13.51 for each lot of 1,000 ordinary and preferential shares respectively. When it opened to the public on May 8 the shares were trading at about R$9.60 and R$9.80 respectively. By yesterday, they had fallen to about R$9.30 and R$8.80.

As a result of the flop, the government's voting stake rose from 51 per cent to 73 per cent.

"Investors who chose not to buy will regret it," said Mr Carlos Gilberto Caetano, the bank's finance director. "By June we will be back in the black."

Analysts were less certain that Banco do Brasil's problems could be solved so quickly, but accepted that a break had been made. "In contrast to its previous management, the bank's directors are trying to give a true and fair picture of the bank's position," said Mr Arthur Franco Bueno, an analyst at consultants Lafis in Sao Paulo.

Banco do Brasil appointed a new president and board of directors in February last year following a change of government. The number of directors has risen from six to seven, but the Treasury has kept the number of its appointees at four and can no longer direct strategy.

Brazilian banks suffered from a loss of inflationary profits when the government's economic reforms slashed inflation in July 1994. Many turned their attention to lending but suffered high rates of non-payment.

Banco do Brasil was forced to make imprudent loans, particularly to farmers, and declared a provision for non-performing loans of R$3.8bn earlier this year.

Analysts are encouraged that the bank is writing off bad loans, in line with good accounting practice rather than the looser practices demanded by Brazilian law.

THE LEX COLUMN

Politically incorrect

Spain's new government is playing with fire. It rightly wants to press ahead aggressively with further privatisations. Yet it also seems dangerously keen to play politics with top appointments in Spain's semi-privatised companies. Already Argentaria has a new chairman, one of whose first acts has been to propose new restrictions on shareholders' voting rights. And persistent rumblings suggest other chairmen may be shifted too – simply because their faces do not fit politically.

Investors should resist this vociferously. Of course the government, as a big shareholder, should have a voice in top appointments. But if it wants investors to believe its privatisation sales pitch, it must use its influence in a way which is seen to serve the interests of shareholders generally. If it forces through appointments which are nakedly political, it will pay a heavy price.

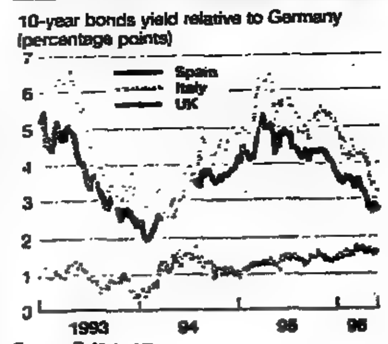
Take Repsol, in which the government retains only a 10 per cent stake. The evident shareholder focus of the company's chairman, Mr Oscar Fanjul, was a powerful reason behind investors' enthusiasm for the recent Repsol offering. Yet only a few months later, the government – in cahoots with a few big banks – seems to be manoeuvring to remove him. This would be a serious error. Not only is Mr Fanjul's record impressive; even if he were replaced with someone convincing, removing him for the wrong reasons would still send a clear signal to international investors about the government's priorities. The damage to the rest of its privatisation programme would be profound.

European bonds

The so-called high-yielders among Europe's government bond markets are looking increasingly unworthy of their name: Spanish and Italian 10-year bonds are currently yielding around 9 per cent and 9½ per cent respectively. The gap relative to German bond yields is close to the levels seen at the height of the bull run of 1993, when European Monetary Union (Emu) encompassing Spain and Italy, was viewed as inevitable. Given the amount of good news already priced into Italian bonds this time, the current rally probably needs the help of the rate cuts it has been discounting before going further. And even though there is plenty of genuinely good news – inflation is falling and the political situation is stabilising – at current levels the market could be upset by minor setbacks.

One potential trigger for a re-think

FT-SE Eurotrack 200:
1733.71 (+19.4)



Source: Datastream

is a reversal of the dollar's strength against the D-Mark, which has helped European high-yielders to gain ground against Germany. And the dollar could run out of steam soon. This could also spark a change of fortune for the most recent recruit to the ranks of the high-yielders: the gilts market, now yielding 175 basis points more than Germany. There are some good reasons for this differential, such as the UK's rising borrowing requirement. And unlike Italy and Spain, the UK market does not offer a free option on Emu. But a lot of political risk is also priced in – even though a Labour victory is unlikely to change economic policy dramatically, and should increase the chances of Emu entry. If the US market recovers, gilts could gain considerable ground from Germany.

Eurotunnel

Eurotunnel's decision to slash its summer fares is a brave move at a time when it is locked in restructuring talks with its banks. If the Channel tunnel operator fails to make up for lower prices with extra passengers, revenues will suffer and it will have weakened its negotiating hand.

After a bungled launch, Eurotunnel has got its act together commercially. And having grabbed a 45 per cent market share in its first year of operation, it makes sense to keep up the pressure on the ferry companies. As it stands, Eurotunnel's list prices are now at or below those of P&O and Stena – although the ferries have been offering big discounts – and it is adding other wrinkles such as a loyalty scheme for frequent travellers. Eurotunnel claims that eight out of 10 people who try out its Le Shuttle service can be converted into regular users. If that is true, getting new passengers in at almost any price appears worthwhile. Eurotunnel's decision to crank up its duty free business at terminals also appears to be paying off.

Sadly, this is all rather academic. With over £8bn in borrowings, Eurotunnel's future depends on agreeing a financial restructuring with its 225 banks. The best guess is still that this will involve a debt-for-equity swap which will heavily dilute existing shareholders – so the one third jump in the shares over the past two months looks puzzling.

UK utilities

It is a truism that hostile bid battles are often great for the target and lousy for the victor. The struggle for Southern Water is becoming a case in point. The problem is straightforward: a compelling strategic argument can be made for either Scottish Power or Southern Electric to own Southern Water – but thanks to competition between them, either could find a cheaper alternative elsewhere. Worse, neither bidder yet shows signs of backing off.

Take yesterday's counter-bid from Southern Electric. Discounted cash flow valuations suggest it is overpaying unless it can extract handsome amounts of extra value from merging the two businesses. Certainly there should be some, from selling power to Southern Water's customers and taking out duplicated costs. And though the geographical overlap is pretty marginal – covering only 25 per cent of Southern Electric's customers – it still ought to give Southern Electric a slight edge over Scottish Power. Rarely, however, can a company have been vaguer about how these benefits will be put into practice.

But even though Southern Electric's counter-bid may be cobbled together, it still puts Scottish Power on the spot. The answer is clear: Scottish Power should back off in order to pursue one of the sector's plentiful alternatives. Yet this is precisely the point at which big mistakes are often made, thanks to the temptation to press on and win. A higher bid could always be justified on the spurious grounds that it would enhance earnings. And the fact that Scottish Power picked up Manweb at a knock-down price may have given it false confidence in its ability to avoid overpaying.

If Scottish Power presses on, this will be a game in which the real winner is the company that blinks first.

Additional Lex comment on Carlton, Page 20

GM to open vehicle base in Thailand

Continued from Page 1

executive added. But a combination of factors, specific to the car industry, apparently led GM back to Thailand. Without getting into a public bidding war, Thailand agreed to waive its domestic content requirements for the entire industry – a concession GM felt it needed to get its new plant into production quickly.

The presence of other car makers in Thailand also gave GM the confidence that the country's shortage of skilled labour and infrastructure deficiencies would be overcome in the long term.

GM officials said if sales in Asia increased according to their projections, extra capacity would be needed and the Philippines would be considered as a base.

KHD faces fraud probe

Continued from Page 1

limit the damage. Mr Schneider is not being investigated.

KHD said Mr Paul Hochscherf, the KHD board member responsible for the KHD Humboldt Wedag plant business, had been relieved of his responsibilities, as had two members of the KHD Humboldt Wedag board, Mr Hans Jürgen Gärtner and Mr Lutz Harmann.

The three men, who were unavailable for comment yesterday, are all being investigated. The other 12 people under investigation are executives at KHD and suppliers to the company.

Sinn Féin may gain from low turnout in N Ireland elections

By John Kampfner and John Murray Brown in Belfast

Northern Ireland's main political parties expressed fears last night that Sinn Féin, the political wing of the Irish Republican Army, could emerge one of the beneficiaries from today's elections that will pave the way for all-party talks on the province's future.

As the low-key campaign drew to a close, Sinn Féin activists predicted that a low overall turnout in the 18 constituencies could boost their share of the vote.

Such an outcome might then be portrayed by republicans as vindicating the IRA's refusal to restore its ceasefire.

Northern Ireland's 1.1m voters have an unprecedented choice of 23 parties and fringe groups who are competing for 110 seats in a new forum.

While having little power itself, the forum would send delegates to the negotiations, which begin on June 10.

With much of the electorate sceptical about the purpose of the forum, and bewildered by an untried hybrid voting system, UK officials are concerned that turnout could fall below the 49 per cent registered in the last poll, for the 1994 elections to the European parliament.

Mr David Trimble, the leader of the Ulster Unionists, who lobbied hard in London for an election, denied suggestions that his party's share could fall below that of the more hardline Democratic Unionists led by the Rev Ian Paisley.

Mr Paisley inflamed the campaign by accusing the UUP of being prepared to renegotiate Northern Ireland's relationship with the UK during the talks.

Mr Trimble appealed to voters "to ignore the smaller parties which can only weaken unionism as a whole."

He added: "Don't send us to the conference table with a weakened mandate."

Mr Gerry Adams, Sinn Féin president, wound up an exhaustive programme at the hustings by warning Mr John Major, the UK prime minister, that his party would use its electoral mandate to turn up at the start of the talks – irrespective of an IRA ceasefire.

Both London and Dublin have insisted that the restoration of a ceasefire is a prerequisite for Sinn Féin's participation.

Mr Adams declined to speculate on the possibility of a renewed ceasefire. But he said many voters would look "with disbelief" at the inability of the British and Irish governments to agree on an agenda for talks on the eve of the elections.

"We'll be there," Mr Adams said. "I can't see how a British government which has established an election to provide a route into talks can now ignore the wishes of those people who vote for our party."

Elections may fail to draw weary voters, Page 9

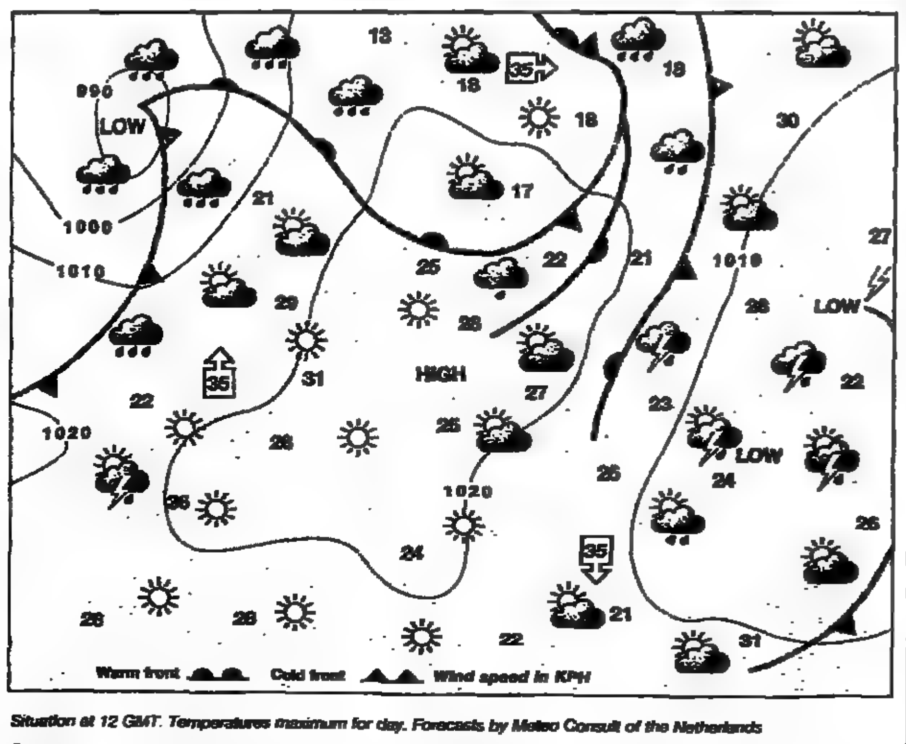
FT WEATHER GUIDE

Europe today

Ireland and Scotland will have cloud, rain and gusty winds. Southern England will stay dry and warm with sunny spells. A southerly flow will draw warm and dry air from the Iberian peninsula across France and into the Benelux. Most places will have plenty of sun but thunder showers may develop in Portugal. High pressure will promote sunny conditions on the islands in the western Mediterranean and from Italy towards southern Germany. A front with associated cloud and patches of drizzle will linger from northern Germany across Poland to parts of Russia. The northern Balkans will be dry and sunny but there will be thunder showers in the southern Balkans, Greece and parts of Turkey.

Five-day forecast

Eastern Europe will be sunny and dry from the Ukraine towards Greece and Turkey owing to an eastward moving high pressure system. A front will move into western Europe causing increasing cloud with a few thunder showers and temperatures below seasonal levels. During the weekend, showers will develop in France, Germany and Poland.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	sun	39
Accra	shower	32
Algiers	sun	24
Amsterdam	fair	24
Athens	thund	26
Atlanta	sun	28
B. Aires	fair	17
B.ham	cloudy	23
Bangkok	thund	37
Barcelona	sun	24
Beijing	sun	32
Belfast	shower	15
Belgrade	fair	23
Berlin	drzzl	22
Bermuda	fair	24
Bogota	shower	19
Bombay	fair	34
Brussels	sun	26
Budapest	fair	24
C.hagen	fair	18
Cairo	fair	35
Cape Town	rain	18
Caracas	fair	31
Cardiff	cloudy	21
Casablanca	sun	29
Chicago	sun	21
Cologne	fair	27
Dakar	fair	28
Dallas	thund	33
Delhi	sun	41
Dubai	sun	36
Dublin	shower	19
Dubrovnik	fair	25
Edinburgh	shower	16
Faro	sun	29
Frankfurt	fair	28
Geneva	sun	29
Gibraltar	sun	24
Glasgow	rain	16
Hamburg	drzzl	21
Helsinki	shower	13
Hong Kong	rain	29
Honolulu	fair	32
Istanbul	shower	24
Jakarta	rain	32
Jersey	cloudy	21
Karachi	fair	35
Kuwait	sun	46
L. Angeles	fair	20
Las Palmas	windy	26
Lima	cloudy	21
Lisbon	sun	32
London	fair	26
Lux.bourg	fair	26
Lyon	sun	30
Madeira	fair	27
Madrid	sun	32
Majorca	sun	25
Malta	sun	24
Manchester	shower	22
Manila	shower	32
Melbourne	sun	17
Mexico City	fair	26
Miami	fair	32
Milan	sun	28
Montreal	shower	13
Moscow	cloudy	21
Munich	sun	28
Nairobi	fair	25
Naples	sun	29
Nassau	fair	30
New York	fair	18
Nice	sun	25
Nicosia	fair	27
Oslo	fair	18
Paris	sun	30
Perth	fair	25
Prague	fair	24
Rangoon	thund	32
Reykjavik	shower	9
Rio	fair	25
Rome	sun	25
S. Frsco	fair	15
Seoul	fair	30
Singapore	fair	32
Stockholm	sun	19
Strasbourg	sun	29
Sydney	sun	19
Tangier	windy	25
Tel Aviv	sun	29
Tokyo	rain	26
Toronto	fair	16
Vancouver	shower	16
Venice	sun	24
Vienna	fair	25
Warsaw	cloudy	20
Washington	fair	21
Wellington	windy	14
Winnipeg	fair	27
Zurich	fair	28

European centre, Luxembourg: the Duchy's status as a founder of what is now the EU enables it to exert an important influence

Luxembourg was the only EU state to avoid a recession in the early 1990s, and it is still forecasting growth in excess of 2.5 per cent this year

Picture: Britstock-IFA

LUXEMBOURG

Leading role at the centre of the EU

The Grand Duchy will need to display all its diplomatic, entrepreneurial and economic management skills as it approaches the new millennium, with a number of challenges looming both within and beyond its wooded frontiers, writes Neil Buckley

Embedded in the heart of Europe, at the junction of French and German culture, Luxembourg remains a model for small countries everywhere – and even gives *its much bigger neighbours* cause for envy.

Despite having a population of only 400,000, its status as a founder of what is now the European Union puts it not just geographically but also politically at the centre of the EU, and enables it to exert an influence out of all proportion to its size.

Being the only EU member currently to meet the so-called "convergence criteria" for monetary union – and comfortably – will strengthen its negotiating position in the continuing Intergovernmental *Conference on the future shape* of the EU. And, of course, Mr Jacques Santer, the European Commission president, is the latest in a line of Luxembourgers who have played a leading role in developing the EU.

Luxembourg is also wealthy. Gross national product per head is second only to Switzerland. Although economic growth did slow, Luxembourg was the only EU state to avoid a recession in the early 1990s, and it is still forecasting growth in excess of 2.5 per cent this year, despite slowdowns in neighbouring Belgium, France and Germany.

Inflation, which jumped to 3.6 per cent during the recession in 1993, stood at 1.5 per cent last month. Unemployment, at 3.3 per cent, is the lowest in the EU.

The raw figures can mislead – as Luxembourgers point out, on a regional rather than national basis, several regions *in Europe have higher GNP* per head than the Grand Duchy. More impressive perhaps, and the source of larger states' envy, is the way Luxembourg has managed the transition from industrial to post-industrial economy; from a nation whose wealth was based on iron and steel, to a leading financial centre, and more recently, a fast-growing centre of the multimedia industry that likes to call itself Mediaport Europe.

The Grand Duchy has gained a reputation for spotting niches that play to its geographical, cultural and political strengths, and exploiting them.

But it will need to continue to display all its diplomatic, entrepreneurial and economic management skills as it *approaches the new millennium*, with a number of challenges looming both within and beyond its wooded frontiers.

On the broader European stage, EU enlargement to the east and south could expand the union to as many as 27 members, several of them very small. The need to avoid decision-making paralysis, and smaller countries holding the rest to ransom, will bring pressure to limit their influence.

Mr Jean-Claude Juncker, 41, Luxembourg's young Christian Democrat prime minister, although renowned for his *intellect and energy and a protégé* of Mr Helmut Kohl, the German chancellor, faces a battle to preserve Luxembourg's clout. He says he is prepared to accept removal of EU members' right of veto in the Council of Ministers – except in fiscal matters, seen as crucially important to Luxembourg. But he will not sacrifice every member's right to appoint a European Commissioner.

Mr Juncker welcomes another likely development on the European stage – monetary union and the arrival of the Euro. As he told Luxembourgers in his annual state-of-the-nation address this month:

"There is no alternative to the Euro, which is vitally important for our country. It will be put in place according to the established timetable. *Even today, tangible progress* has been made in the convergence plan drawn up in the Maastricht treaty."

The prime minister's confidence that monetary union will happen on time is reflected across the Grand Duchy. As one official puts it:

"We think in terms of certainty; we don't question it. We are already dealing with the problems that might arise, not whether it will happen or not."

The Euro will create both opportunities and problems. Luxembourg's banking sector, *which accounts for 15 per cent* of gross domestic product and, through corporate taxes and employees' income taxes about one-third of total government revenues, estimates the cost of its introduction alone at LFr8bn – equivalent to 4 per cent of last year's total bank revenues of LFr191bn.

Banks will lose commission on European currency dealing and, more importantly, on issuance of Luxembourg Franc-denominated Eurobonds, while the Euromarkets in national European currencies – of which Luxembourg has a 12 per cent market share – will disappear.

Mr Lucien Thiel, general manager of the Luxembourg Bankers' Association, believes Luxembourg can take up the slack with new Euro-dominated *activities, as well as the* continued growth of the Duchy's fund management and insurance sectors.

"If the UK stays outside the single currency, London will be the centre for the non-Euro zone. But there will need to be an international centre on the other side of the barrier, in the Euro zone," he says. "Luxembourg is historically a more international centre than Paris or Frankfurt. This could be an opportunity for us."

Potentially a bigger threat than the single currency itself is the possibility that it could bring with it demands for standardised *EU withholding tax or* minimum reserve requirements – the absence of which is one of Luxembourg's attractions – or for removal of bank secrecy. The financial community hopes and believes the chances of these are remote.

Banking confidentiality, it says, is embedded in the culture of several other member states such as Austria, and the EU would not want to see an outflow of private investors' funds into Switzerland. Meanwhile, Luxembourg's insistence on retaining the national veto in EU economic decision-making reflects determination to defend its other competitive advantages.

That determination was also evident in Mr Juncker's announcement this month of a LFr4bn package of cuts in corporate taxation. *This was not*, he insisted, a "gift" to the financial community, which had pressed for such a move. But it will bolster Luxembourg's sector against competition from emerging financial centres such as Dublin.

The hope is that it will also promote job-creation elsewhere, with unemployment, though low by international standards, standing at a post-war high, and traces of long-term unemployment emerging for the first time.

As Arbed, Luxembourg's famous steel company, shifts its focus abroad, and steel *industry jobs continue to contract* from 30,000 in the 1970s to a projected 4,000 by early next century, one domestic industry the government is vocally encouraging is media.

Luxembourg's 60-year-old Compagnie Luxembourgeoise de Télédiffusion, Europe's oldest commercial broadcaster, is well-placed to participate in the digital broadcasting explosion through the planned merger of its TV interests with those of Germany's Bertelsmann, and a three-way alliance with France's Canal Plus and Mr Rupert Murdoch's BSkyB.

More recent ventures, such as Société Européenne des Satellites, operator of the Astra satellite system, and Europe Online, the fledgling Internet service provider, constitute the second and third pillars of Lux*embourg's media empire.*

As well as maintaining competitiveness and encouraging employment, another domestic issue the government is focusing on is pension reform – attempting to reduce the likely pressure of the pensions explosion it, like many European states, faces in 20 years' time. After the first-ever one-day strike by 20,000 government employees last year, delicate negotiations are under way with the unions on harmonising currently over-generous public sector pension arrangements with those in the private sector. If the government succeeds here, *observers suggest* the thorny area of social security reform may be next on the agenda.

But, as one finance official puts it: "We are lucky we have comparatively few short-term problems. That gives us time to tackle the longer-term ones." How many other EU states might wish they could say the same.

■ **The economy:** by Neil Buckley

Drive for jobs, investment

Handling the shift from an industrial to service-based economy will continue to be one of Luxembourg's biggest challenges


Luxembourg is again feeling the impact of economic slowdowns among trading partners

Luxembourg's dynamic little economy was one of the few to avoid recession during the Europe-wide downturn of the early 1990s. But even it is not immune to some of the longer-term pressures in continental Europe – and the government this month announced a LFr4bn-plus package of corporate tax cuts aimed at encouraging investment and creating jobs.

While the economy is in good health, Luxembourg is again feeling the impact of economic slowdowns among trading partners such as France and Germany.

Statec, the national statistical service, says that growth in the gross domestic product slowed from 4 per cent in 1994 to 3.7 per cent last year, according to Luxembourg's own and European standard SEC measures – although that was still well above the 2.7 per cent European Union average.

Statec has downgraded its growth forecast for this year from an original 3.5 per cent to 2.8 per cent – although some government officials believe the eventual figure may be below 2.5 per cent.

The biggest downward revision is for the industrial sector, expected to be hit by falling exports, with growth forecasts cut from 3.2 per cent to 1.1 per cent, including zero growth in the iron and steel industry, and only 1.5 per cent in other industries. No downward revision has been made to the forecast for Luxembourg's service industries, expected to continue their "anti-cyclical" trend.

As Statec emphasises: "The 'centre of growth' since the 1970s has moved from industry (especially the steel industry), towards the financial sector. That pole is now shifting again, towards other market services."

Inflation, which hit 3.6 per cent in 1993, fell back to 1.9 per cent for 1995 as a whole, and the year-on-year figure this February to 1.0 per cent – the second-lowest in the EU after Finland. The figure slipped back to 1.5 per cent in April, due largely to price increases in petroleum products.

But with 60 per cent of Statec's basket of goods originating outside Luxembourg, and the Duchy's four main trading partners continuing to enjoy low inflation, Luxembourg's rate is forecast to remain below 2 per cent.

The outlook is less encouraging for unemployment, which for many years was virtually zero. Unemployment increased from 2.7 per cent in 1994 to a post-war high of 3 per cent in 1995 – or 5,100 out of an active population of 171,500. In March this year, it reached 5,662, or 3.3 per cent. Economists believe structural factors are at work and foresee no return to the days of full employment.

Contraction of the steel industry (from 30,000 employees in the 1970s to 6,000 last year) has reduced an important source of unskilled jobs, while low-grade clerical work is increasingly performed by computers.

"We must recognise that some of those unemployed now will never find a job," says one government official.

Handling the shift from an industrial to service-based economy will continue to be one of Luxembourg's biggest challenges. It recognises that maintaining the attractiveness and competitiveness of its financial sector – accounting for almost one-sixth of GDP – is crucial.

The arrival of the Euro in 1999 will hit the banking sector, reducing profits from foreign exchange dealing and Euromarket activities. But provided imposition of an EU-wide withholding tax, or minimum reserve requirements, do not erode its attractiveness, the financial sector sees little to fear in monetary union.

More pressing worries are that tax breaks offered by emerging financial centres such as Dublin could lure business away – as could rapidly increasing personnel costs, which in banking have risen from 19.5 per cent of total revenues in 1990 to 23.6 per cent last year.

The government is already tackling the former problem. Mr Jean-Claude Juncker, the prime minister, in a state-of-the-nation address earlier this month, announced corporate tax cuts aimed at "encouraging investment and making the Luxembourg economy more competitive".

These included reduction of corporate income tax by 1 percentage point a year from 33 per cent to 30 per cent by 1999, and abolition of a 4 per cent working capital tax – equivalent to a total reduction in tax revenues next year of LFr4.1bn.

Measures aimed specifically at the banks included reduction of the subscription tax on investment and money market funds from 0.03 per cent to 0.01 per cent by 1998, cutting tax revenues by a further LFr600m. The budgetary shortfall is to be made up by spending cuts and, eventually, increased taxation from incremental business.

Efforts are also being made to tackle the problem of rising labour costs. Although wage rises in Luxembourg, as in Belgium, continue to be indexed overall to the cost of living, banking unions have been persuaded to accept more flexible application of the system, with wage rises more closely linked to performance and seniority.

The sensitive subject of indexation may be reviewed in coming years, but few believe it will be removed ("Only if Belgium moves first," comments one official). Some, such as Mr Pierre Jaans, head of the Institut Monétaire Luxembourgeois, defend indexation, arguing that in a low-inflation environment it poses few dangers, while the guarantee that real incomes will be stable acts as a powerful "anaesthetic" on trade unions.

The unions might, however, be waking up. Public-sector employees staged an almost unheard-of one-day strike last year over the introduction of employee pension contributions. Observers say this points to perhaps the most important challenge for the Luxembourg government: reform of the costly pension and social security systems.

Luxembourg's own pensions "time bomb" resulting from the post-war baby boom is not set to explode until 2015 – five years later than in many EU states. But it is already seeking to ease the squeeze on public finances.

The Duchy's 16,000 government employees currently enjoy a generous pension of 83 per cent of final salary. Tough negotiations are under way with the unions to reform both pension and contribution rates, aimed at reaching agreement on harmonising them with those in the private sector by the year-end. Government hopes this will send a signal to private sector companies to take similar steps to put their pensions houses in order.

In the longer-term, observers expect Mr Juncker to tackle the sensitive issue of social security costs – likely to require all his considerable political skills if he is to preserve Luxembourg's much-prized social harmony.

KEY FACTS

Area	2,586 sq km
Population	406,600 (1995 estimate)
Head of state	Grand Duke Jean
Currency	Luxembourg Franc (LFr) at par with Belgian Franc
Average exchange rate	1995 $1=LFr29.48; 20/5/96 $1=LFr31.53

ECONOMY

	1995	1996*
Total GDP ($bn)	16.3	n.a.
Real GDP growth (%)	3.2	2.5
GDP per capita ($)	39,961	n.a.
Components of GDP (1994, %):		
Private Consumption	53.3	
Total Investment	25.5	
Government Consumption	13.5	n.a.
Exports	88.5	
Imports	-80.8	
Consumer prices (% change pa)	1.9	1.8
Ind. production (% change pa)	0.1	4.0
Unemployment (% of lab force)	3.0	2.7
Reserves minus gold ($bn)	75.0	n.a.
Gen. govt. budget balance: (% of GDP)**	-0.5	0.5
Current account balance ($bn)	15.9	
Exports ($bn)	140.0	n.a.
Imports ($bn)	130.0	
Trade balance ($bn)	10.0	
Main trading partners (1994, %):	Exports	Imports
Germany	21.0	20.1
France	19.0	16.1
Netherlands	13.2	17.7
UK	8.5	9.5
Italy	5.2	4.3
US	5.0	5.3

Notes: * = EIU estimates. **= Maastricht definition. All trade figures refer to Belgium-Luxembourg Economic Union (BLEU).
Sources: Economist Intelligence Unit, Datastream, IMF

PROFILE Jean-Claude Juncker, prime minister

Solid faith in Europe's future


Juncker: views Maastricht 2 with a mixture of hope and trepidation

Mr Jean-Claude Juncker, Luxembourg's prime minister, belongs to the new generation of European political leaders. Aged only 41, he exudes a breezy confidence which draws on deep religious convictions, a rock-solid faith in the future of Europe, and a near-effortless rise to the top in his own country.

Mr Juncker vaulted unexpectedly into the premiership 18 months ago after Mr Jacques Santer was summoned to Brussels to become president of the European Commission. The youthful Christian Democrat had long been groomed for the post; his talent was spotted more than a decade before by Mr Pierre Werner, the former prime minister and intellectual godfather of European monetary union.

Now Mr Juncker must show whether he can live up to Mr Werner's expectations. He must preserve Luxembourg's position as a dynamic hub in western Europe as the European Union prepares for two historic missions: monetary union and enlargement to central and eastern Europe. Both will require skilful political management. So how does Mr Juncker believe the EU should proceed?

The first task is reach a reasonable agreement at the EU's inter-governmental conference, says Mr Juncker. He knows a thing or two about IGC negotiations, having helped to draft much of the Maastricht treaty's language on monetary union during the Luxembourg presidency of the EU in the summer of 1991.

His father, a no-nonsense steelworker, once asked him to explain the Maastricht treaty during a walk in the Grand Duchy's forests; three hours later, Mr Juncker wrapped up his exposé. "Anything which takes that long to explain does not have much to recommend it," said his father, echoing a widespread feeling among the European public.

Mr Juncker views Maastricht 2 with a mixture of hope and trepidation. His hope is that EU leaders will take steps towards deeper political integration necessary to lay the groundwork for enlargement to central and eastern Europe, but also to complement the deeper economic integration implicit in a monetary union in which Luxembourg will be a certain member.

His fear is that leaders will flinch as in Maastricht 1, although he warns: "It would be a disaster to go ahead with monetary union without greater political union."

These views match those of Chancellor Helmut Kohl of Germany who sees Mr Juncker very much as a protégé. Coming from a country twice overrun this century by German armies, the Luxembourger finds no problem in supporting Mr Kohl's comment that political integration in Europe is about war and peace. Listen closely to Mr Juncker and it is clear that he sees movement towards political unity in continental Europe partly as a means of managing German power.

"Helmut Kohl is the last European, the keeper of the Holy Flame. If you look at the past 50 years, you should take the chance Helmut Kohl is offering. The other Germans don't feel Europe in their bones as he does; and they won't cut a deal like he did on monetary union."

Without further moves towards a political unity – such as an extension of majority voting and a dilution of the national veto – Germany would face a difficult choice: either to delay enlargement on the grounds that the Union is plainly unfit to take in new members, or whether to press ahead regardless in order to secure its eastern borders and avoid a security vacuum in the centre of the continent.

Mr Juncker suspects Germany would choose "widening" over "deepening".

One answer is to adopt the "variable geometry" favoured by France, Germany, the European Commission and the Benelux countries. This would allow some countries to move ahead of the rest, to co-operate more closely in certain areas in a more diverse 20-plus Union.

Mr Juncker believes this new-found flexibility could dilute the collective force of the Union, setting a bad example to the central and east Europeans.

How could one include the Hungarians in a future common European foreign policy and exclude the Slovakians, he asks.

On balance he feels it would be better to allow those with the greatest ambitions to move forward rather than being held back by recalcitrant states, notably Britain. The alternative is paralysis.

Yet Mr Juncker is a good deal less critical of the British than might be expected. He agrees with the British criticism that Maastricht promised too much in areas such as a common foreign and security policy. He is critical of countries who hide behind a bolshy Britain to cover up their own reservations about EU policies. He appreciates the British contribution to the balance of power in continental Europe, even if he would never use such a 19th century expression.

Indeed, Mr Juncker will be as obstinate as the British when it comes to defending his country's interests in the IGC. He will insist on retaining Luxembourg's right to a commissioner in Brussels. He will resist extending majority voting to fiscal policy because it would threaten the Grand Duchy's status as a withholding tax haven. But he faces an uphill battle to maintain Luxembourg's voting weight in the decision-making Council of Ministers.

On monetary union, Mr Juncker is as adamant as Mr Santer in insisting that it must go ahead on schedule in 1999. The final decision, he says, will be political.

In the spring of 1998, EU leaders will study the recommendations of the European Monetary Institute and the European Commission on which countries qualify, especially on public deficits which are supposed to be trimmed to 3 per cent of GDP. But, hypothetically, "if Germany is 3.5 per cent and France is 3.7 per cent, it's OK. You are not going to miss an historic opportunity over 0.4 per cent."

Lionel Barber

■ **Insurance:** by Robert Garton

Uniquely well-placed

Preliminary figures show a 160 per cent increase in premium income for the year

The European market for life insurance products is huge: recent estimates put it at $142bn. Luxembourg is *uniquely well-placed to take* advantage of the liberalisation of insurance legislation, thanks to its geographical position, but more importantly because of its regulatory regime, its multilingual people, the financial expertise on tap, and because of the strong base it already has in cross-border investment.

Impetus to the life and pensions industry has been added by the Third European Life Directive, which has brought down cross-border barriers by permitting life companies to set up operations in any of the *15 different* European Union member states, while still being controlled by domestic regulations.

Hopes that Luxembourg would benefit from the third directive, and see life insurance become a third pillar of the financial edifice, alongside banking and investment funds, are proving well-founded. Preliminary figures from the Commissariat aux Assurances, Luxembourg's regulatory body for the insurance sector, show a 160 per cent increase in premium income for the year to December 1995, *surging from* LFr38bn the previous year to LFr110bn. The first quarter of this year is also expected to produce a sharp rise.

The figures are a reward for the strenuous efforts made, particularly, by Mr Victor Rod, the commissariat director, to create the right framework in Luxembourg for growth. Cross-border activities accounted for about 90 per cent of last year's increase in premium income, the bulk of it from recently-formed companies. The past four years have seen 20 new *companies set up in Luxembourg* in the life sector, all subsidiaries of leading European companies, or joint ventures. Three have been created this year.

Says Mr Rod: "My expectation is that in the coming years the growth will continue.

"We are laughing with one eye but crying with the other. On one side, we are very happy about the development, but we realise that it will be very difficult to sustain an increase of the order of 160 per cent! But I am very optimistic about 1996."

Insurers with life and pensions products are also looking at the demographic changes in Europe: a rapid rise is forecast in the number of retired, relatively wealthy people, which will prompt a far greater demand for private pensions.

Estimates from the European Federation for Retirement provision suggest that in 40 years the ratio of people aged over 65 to those in the 15-64 age bracket will have doubled in Germany, France and Belgium, and almost trebled in the Netherlands.

UK-based insurers – and the foreign companies holding a stake in them – have an important advantage in trans-border insurance: the British regula*tory framework is relatively* light, and the life industry has been able to devise many products maximising return, while minimising tax on income and capital gains. They can also point to the City of London, where investing in equities can produce higher returns than insurers in continental Europe derive from investments in bonds. Additionally, entry into the wider European market can help offset domestic losses resulting from the slow market and the scandal of pensions mis-selling.

Clerical Medical International, an arm of the UK-based investment group, is making a strong effort to crack the European market. The group, which has £11.5bn of funds under management, opened another *full branch in Luxembourg last* year as a springboard to the continent. It already had a funds operation, CMI Asset Management, in the Duchy. The new office has about 40 staff from nine countries speaking a total of 10 languages.

> The guaranteed format is particularly important in Germany

Mr Ken Swain, regional director for Europe, says: "We've targeted Germany, so we have a product tailored for it. We see Germany as the number one country because of its wealth and population size."

Life insurance premiums in Germany rose in 1995 from DM83bn to DM88bn, making up roughly 2.5 per cent of GDP. [The country's industry association, the GDV, recently forecast that growth in overall premium income would slow to 4-5 per cent this year. Mr Bernd Michaels, GDV president, blamed the weakening economy and an increase from 12 to 15 per cent in insurance tax. Significantly, however, he expected life insurance to perform much better as more people were investing in private pension schemes.]

CMI, which is aiming for 0.5 per cent of the German market, has launched a fully compliant UK-style endowment product, with a guaranteed structure, linked with the Wealthmaster growth fund which it pioneered in its offshore headquarters in the Isle of Man. The guaranteed format is particularly important in Germany, where investors are still seen as risk-averse. The unit-linked side is growing slowly, but the Germans have not taken to it as readily as some other countries. From Germany, CMI intends to spread into France, Italy and Belgium, reaching seven countries by the end of the year, *and deriving 40 per cent of* group business overseas.

The latest UK insurer to set up in Luxembourg is the Edinburgh-based Scottish Equitable, which has more than £8bn funds under management. Scottish Equitable International aims to provide investment products and life and pensions products through Europe and has initially targeted Italy.

Mr Otto Thoresen, director of International operations, says it has a combination of strategies. From the UK it plans to diversify from pensions, making more technical use of insurance products in personal investment. As European funds are becoming more attractive it is putting together a range of personal investment plans, giving the financial advisers with whom it works greater choice and access.

Scottish Equitable has been active in Italy for four years, in SICAV (société d'investissement à capital variable) funds, working with banks in Lombardy. Mr Thoresen says: "Its success has encouraged the company to develop life prod*ucts to be sold from Luxem*bourg into Italy. It gives us the opportunity to experiment to some extent, to combine our knowledge of the UK together with that of our partners and distributors." The products are a few weeks away from launch.

Luxembourg was chosen because Scottish Equitable wanted a European focus, rather than having an eye towards the Far East. That narrowed the choice down to Luxembourg or Dublin. Mr Thoresen had also had some personal experience in the *Duchy dealing directly with* SICAV products; it was seen to have a distinct advantage in marketing; there was also the cultural issue with the views of the Italians.

Also, Scottish Equitable went into partnership in 1993 with Aegon, which has a strong presence in the US and worldwide aspirations. "We were asked to build a Third Life Directive for the company as a whole," says Mr Thoresen. "They felt Luxembourg was the best option.

"Going to Luxembourg meant we have had to be very careful about our cost base. I think, however, that the cost differential with Dublin is only temporary."

■ **Investment funds:** by Robert Garton

Duchy is a victim of its own success

There is still a prospect of further retaliation from Germany and other countries anxious to stem the outflow of funds

Luxembourg continues to *enjoy its pre-eminence at the* centre of European investment funds, controlling almost 90 per cent of continental Europe's offshore fund assets.

There are now 220 banks in the Grand Duchy, directly employing more than 18,000 people. The industry revived after a sticky period in 1994, with assets growing by more than 11 per cent last year. There were some 400 new launches, totalling $24bn.

The Grand Duchy's proximity to Germany, Switzerland and France is still the key, with those three countries accounting for 76 per cent of activity. Swiss promoters have edged ahead of their German counterparts in recent years, partly as a result of a crackdown by German authorities on the exodus of savings and the loss of tax revenue; partly because of Switzerland's tax regime and the banks' need for a truly international base.

Elsewhere, France has some 6 per cent of total Luxembourg fund assets, valued at $19bn. The US now ranks just behind France, with 29 promoters aiming at the single market, the *biggest being Fidelity Invest*ments which has $4bn under management. UK fund managers are led by Flemings, which has $2.8bn under management and has funds notified for sale in 12 countries. Flemings and Fidelity both have Luxembourg funds authorised for sale in Hong Kong.

Luxembourg is a victim of its own success. There is still a prospect of further retaliation from Germany and other countries anxious to stem the outflow of funds. And there have been problems over the appli*cation and interpretation of the* Ucits (Undertaking for Collective Investment in Transferable Securities) directive on cross-border funds.

There may be other clouds on the horizon, in the shape of competition from emerging financial centres, but the Luxembourg community does not expect immediate rain on its parade. At the same time, developments in the wider Europe are giving a fresh impetus to the Duchy's financial centre.

Mr Rico Barandun, managing director of Credit Suisse, Luxembourg, said: "We are optimistic about the future and we are making good progress in Luxembourg." He said 1995 had been a successful year and the first four months of this year were even better.

The bank is custodian to 95 mutual funds, whose total volume rose 9 per cent last year to SFr36bn. Mr Barandun, like many others, was eagerly looking forward to what the government had to suggest in its new tax package that would reinforce the duchy's competitiveness.

Mr Henry C. Kelly, director of Fleming Fund Management (Luxembourg), was also hoping for a decision on tax. Although the government had responded to pressure by reducing the *taxe d'abonnement* (capital duty on funds) last year from 0.06 per cent to 0.03 per cent on money market funds and funds of funds, he hoped it would be further reduced.

Although this is an important source of revenue for the Grand Duchy, Mr Kelly, who is *on the committee of Alfi, the* Luxembourg investment funds association, is looking for the eventual abolition of the duty as a clear signal of commitment to the industry. Flemings has recently redenominated into D-Marks all its European funds to get closer to the investors' requirements. The exception is UK equity funds which continue to be denominated in sterling.

The biggest challenge facing the investment fund sector over the forthcoming years will come from the pensions *market, as a rapid rise is fore*cast in the proportion of retired people in France, Germany and Italy, propelled by the post-war "baby boom", ever-improving health and lifespans, and increasing costs of healthcare. Mr Kelly describes this as a "time-bomb ticking across Europe".

"Governments are seen as being incapable of meeting the whole cost of providing adequate pensions, and more people are looking to investment funds, either as individuals, or with schemes from insurers," he says.

Patrick Zurstrassen: 'We are meeting a very heavy response indeed'

Mr Patrick Zurstrassen of Banque Indosuez says Luxembourg is reflecting what is happening in the rest of Europe: in Germany there is a heated *debate on the merits of invest*ment funds as pension investments. It may ultimately lead to something similar to the US 401K regulation, where corporations make available to their employees a range of investment funds so they can choose and keep the benefits for their retirement.

In Germany, a modernisation of the funds system could incorporate pension investment funds; an employee would then have a choice of eligible funds. If Germany shows the way, it may mean *that employees of company Z* could invest in fund A, where the two have absolutely no relation to each other. Mr Zurstrassen says: "This would open the way to huge investment. The question would be, How can investment funds, which are a lean and efficient way of investing money, be better used for pension funds?"

Investors and companies aiming to provide for retirement will give a further boost to the rapidly growing interest in guaranteed funds, because these give clients the opportunity to profit from higher returns by investing in, say, the emerging markets, where they have exposure but not the full risk.

Investors are being offered *greater innovation and lower*-risk products. Flemings Guaranteed Pacific fund, launched in April, is a D-Mark-denominated fund allowing a way into the dynamic stock markets of Japan, Hong Kong, Australia and Malaysia, while limiting the potential loss of capital invested.

Fund managers are becoming increasingly frustrated by the delay in formulating the second Ucits directive, following up the 1988 legislation and covering areas and products excluded from the first direc*tive. Lack of clarification has* led to confusion, with some cross-border funds being refused a "passport" by some EC member states, and some inventive ways of getting around barriers.

Mr Adam Fox, managing director of corporate funds management services at Commercial Union, says: "Perhaps they've tried to do too much in one go. They've taken on a whole range of things across all countries and certain people who are unhappy about some parts of it.

"If they had broken it down, then some areas which are less controversial would have been agreed quickly. The first directive provided a good framework, but then it should have been split into smaller parts."

After a year of consolidation in 1995, Mr Fox is beginning to see more activity in the markets, which will benefit investment funds. CU, which has £230m funds under management, is seeking to expand its volume of funds and looking at new distribution partnerships. It launched in Norway at the *beginning of the year.*

Innovation is springing from high technology. Banque Indosuez has introduced "cloning" a data-processing tool which allows for the globalisation of the management and administration of assets belonging to legally independent entities. Mr Zurstrassen says: "We had expected a slow start to this, but in fact we are meeting a very heavy response indeed."

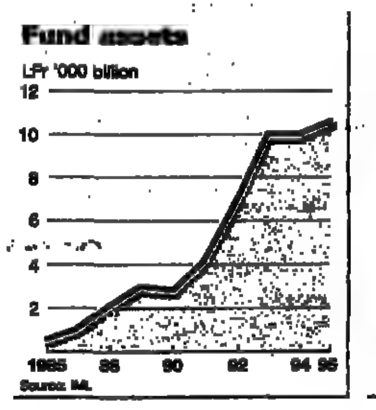
Cloning enables promoters to create a series of different investment funds, each adapted to an individual market or market segment. It reconciles multiple structures while reducing management and administrative costs.

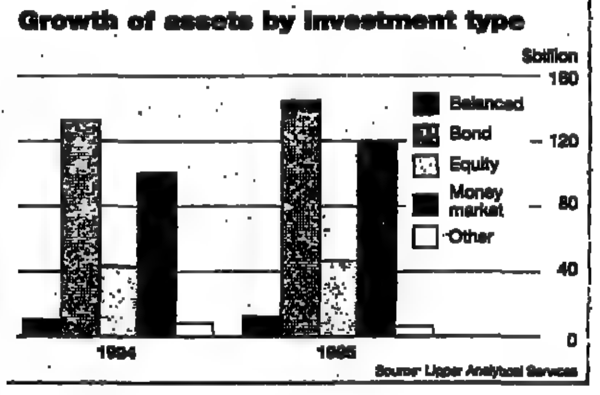
There is a measured response from Luxembourg's banks and fund managers to the threat from other emergent financial centres, such as Dublin. They point to the Grand Duchy's advantages in the proven expertise of its people, the government's attitude to promoting and furthering the special offshore business, the ready accessibility of funds, confidentiality and investor protection.

Mr Ken Swain, of Clerical Medical International in Luxembourg, believes the continental European investor is far more comfortable in the Grand Duchy than he would be in Dublin, which he doesn't know, and he stresses the importance of language.

"The Irish people are very good and they travel well, but they are not by nature multilingual. Most of our staff here speak two or three languages fluently and that level of communication with the client is vital." Languages apart, how*ever, the key is in providing* what the client wants. Mr Swain says: "If you can't deliver a quality product for the market you're aiming at, you'll not be successful."

Mr Zurstrassen, president of the investment funds association, says that when all the costs are considered, plus productivity and results, Luxembourg comes out favourably. But he foresees less concentration in future on geography: "We want to stop worrying about it, and the only way to stop is to ensure that you serve the client in all the areas he wants to be. We have to neutralise the country dimension and focus on the service dimension."





■ **The media sector:** by Neil Buckley

Support is deeply rooted

The same geographical and cultural factors that supported the growth of the financial sector have also encouraged media development

Chateau de Betzdorf, HQ of SES, the world's biggest privately-owned TV satellite operator

First there was steel, then came the banks; now there is the media sector. Luxembourg's government is already talking of media as the third wave in the development of the Duchy's economy.

Compagnie Luxembourgeoise de Télédiffusion, better known to millions as the operator of various RTL channels, is already one of continental Europe's most influential broadcasters, with 14 television channels in six countries and 18 radio stations across eight countries. It is set to be a pioneer of digital broadcasting, following its inclusion, via a proposed merger of its television interests with those of Germany's Bertelsmann, in a three-way alliance with France's Canal Plus, and Mr Rupert Murdoch's BSkyB.

Luxembourg-based Société Européenne des Satellites (SES) has in a decade established itself as the world's biggest privately-owned TV satellite operator, creator of the Astra system.

Now attention is turning to Europe Online, the fledgling online computer service provider launched last December, whose shareholders include Germany's Burda, Pearson, publisher of the Financial Times, and several Luxembourg-based investors. The company aims to provide online services via the Internet in all the main European languages, offering an alternative to English language-only US services such as America Online.

But while the media sector's rise is sometimes portrayed as a recent phenomenon, government support for private media investors is deeply rooted. The same geographical and cultural factors that supported the growth of the financial sector have also encouraged media development.

One crucial factor is that, despite its size, Luxembourg's sovereign status means it is entitled to its own broadcasting frequencies. In the late 1920s, when European states were allocated radio frequencies through an international agreement in Geneva, the government took the important decision to allow a private company to use them, rather than creating a public service broadcaster. French investors and Luxembourgish technicians set up the then Compagnie Luxembourgeoise de Radiodiffusion (CLR) as Europe's first commercial broadcaster in 1931.

In 1983, when the government granted a franchise for use of the satellite frequencies it had been allocated, giving birth to SES, it was repeating the precedent set half a century earlier.

Other advantages include Luxembourg's geographical position in the centre of western Europe, and Luxembourgers' famous facility with languages. That made it possible, even in the 1930s, to broadcast into several countries in different languages.

CLR's English-language talk and light music programming at the weekend helped it gain popularity as far away as the UK – where the BBC then played only classical music at weekends – laying the foundations for the future international success of Radio Luxembourg.

CLR became CLT in 1954 with the launch of Télé-Luxembourg, but it was in the 1980s, with deregulation of European broadcasting, that it became a significant force in European television.

It "de-localised" its business, setting up companies in other markets with local partners. Today, with Bertelsmann, it controls RTL, the biggest German channel with an 18 per cent audience share, and it has stakes in Germany's RTL2 and Super RTL; in France, it has a share in M6, with 12 per cent of the TV audience, and three other channels. It has two channels in the Netherlands, including the biggest, RTL4; two in Belgium; and recently it gained its first TV foothold in the UK with a stake, alongside Pearson and MAI, in Channel 5, due to launch next year.

Now, via the grand alliance between Bertelsmann, Canal Plus and BSkyB, CLT is set to participate in the biggest explosion of broadcasting services since the birth of television. The alliance will have an estimated 25 satellite transponders, capable of broadcasting 250 digital satellite channels.

The partners aim to launch such services in several countries, starting with Germany. The deal must be approved, however, by the German and European Commission's competition authorities, either of which may demand changes. Decisions are unlikely before the year-end.

SES, too, is positioning itself to take advantage of the coming growth in digital TV, with a $900m investment in new capacity. It launched its fifth satellite, Astra 1E – the first dedicated to digital transmissions – last year, and is due to launch the sixth, Astra 1F, shortly.

It has a contract with Hughes Space and Communications for another satellite to be launched next year.

Europe Online is the emerging third pillar of Luxembourg's multimedia edifice. It had a somewhat shaky start last year, with a significant switch in strategy months before launch from being a "closed" system – with a contract already signed to use the Interchange software of AT&T, one of its shareholders – to an open domain on the Internet, using Netscape software. It lost its chief executive, Mr Christian Bruck, and a leading shareholder, France's Matra Hachette.

But five months after launch, Mr Jürgen Becker, the new chief executive, says Europe Online is achieving an encouraging 220,000 "hits" a day. It has 30,000 paying subscribers, well short of the eventual target of 250,000, but, says Mr Becker, this is a creditable achievement given that much of the service can presently be accessed for no charge via the Internet. The main benefit for subscribers is the right to establish their own home page on the service.

German, French, English and Luxembourgish services are already operating; the Dutch-language service is ready for launch, followed by Italian, Spanish, Swiss and Austrian versions next year.

Mr Becker says the move from closed system to Internet domain – like that of Microsoft's Microsoft Network – was based on the assumption that large telecoms companies such as AT&T will gradually become the main Internet access providers, replacing the Internet "gateways" provided by online services such as CompuServe or America Online. The latter will shift from being closed systems to paid-for Internet domains. Many other Internet services such as electronic newspapers which, like Europe Online, are currently offered free, will become paid-for.

Users will pay an Internet access fee to a telecoms company, then assemble their own "à la carte" selection of paid-for Internet services. If this shift happens, Mr Becker believes Europe Online can meet its target of breaking even by 1998.

PROFILE Institut Monétaire Luxembourgeois

Reputation for efficiency

Jaans: admits to some misgivings

It is a little surprising to find that the central bank director of the only country which currently meets the conditions for joining a European single currency is rather sceptical about the whole idea.

While much of the rest of the Grand Duchy seems to be preparing enthusiastically for monetary union, Mr Pierre Jaans, director-general of Luxembourg's pocket-sized central bank, the Institut Monétaire Luxembourgeois, admits to some misgivings.

"I am already known as a heretic. Fortunately I come from Luxembourg," he jokes. In fact, Mr Jaans' self-deprecating comment masks the fact that both he and his country have played an important part in the debate on the introduction of the Euro.

The goal of European monetary union was first mooted by a Luxembourger, the then prime minister Mr Pierre Werner, in 1970.

Mr Jaans was a member of the 17-man committee set up in the late 1980s by then European Commission president Mr Jacques Delors, which mapped out the phased approach to economic and monetary union enshrined in the Maastricht treaty and now being implemented. And after 13 years heading the IML, Mr Jaans is one of the EU's two longest-serving central bankers – the other being Mr Wim Duisenberg, Dutch national bank president, set to succeed Mr Alexandre Lamfalussy next year as head of the European Monetary Institute, the embryonic European central bank.

Mr Jaans' worries about the possible side-effects of a single currency were set out in an appendix he wrote to the Delors committee's report. Broadly, he fears that the loss of national exchange rates as important indicators of confidence in nation states' economic policies could lead to policy adjustments not being implemented quickly enough – which could cause economic damage and "disindustrialisation" in the interim.

As a former economist, Mr Jaans even dares to question some of the modern economic orthodoxies underpinning the assumption that monetary union is necessary.

"We are so convinced that only stable money leads to employment, growth, welfare and so on. But there are very recent examples that point to the contrary," he says, citing Italy, whose post-war inflation rate has been one of the highest in the EU, but where the process of wealth creation and rising living standards has been among the most visible.

But overlying the intellectual scepticism of the economist is the pragmatism fostered by 20 years as supervisor of Luxembourg's banks. Mr Jaans is sure of two things. One is that monetary union will go ahead as planned in 1999. The other that Luxembourg will, and must, be a member.

"It is a project in which so much has been invested in political terms," he says. "It is not important whether there are real economic gains. It has become politically so important it cannot be abandoned."

The tiny Luxembourg economy is unlikely to be vulnerable to the pitfalls of monetary union he fears for larger states, Mr Jaans adds. On the contrary, the Duchy has much to gain from membership of what will be one of the world's three most powerful currencies.

Luxembourg knows all about monetary unions, having since 1921 had the Luxembourg franc at par and fully interchangeable with the Belgian franc.

Mr Jaans knows, however, that wider European monetary union will spell the end of the IML's short-lived role as a central bank – the role for which he helped to create it.

Mr Jaans began his career by spending 10 years at the Germany Bundesbank in Frankfurt, and a spell with the Organisation for Economic Co-operation and Development (OECD) in Paris, before returning to Luxembourg in 1975 to head the banking supervisory body, the Commissariat pour Contrôle des Banques. At that stage, the Luxembourg government was directly responsible for issuing notes and managing state reserves.

As the first debate on monetary union gathered momentum after publication of the Werner plan, Mr Jaans and his colleagues feared Luxembourg could be excluded from the discussions if it did not have an institution recognisable as a central bank.

"My concern was that if Luxembourg did not have an institution independent from the state, if [the Commissariat] was focused only on banking supervision, Luxembourg would not have the opportunity to participate in something that it seemed could only be a partnership of European central banks," he says.

He took his concerns to Mr Werner, who approved creation of the IML, combining the banking supervisory functions of the Commissariat with the government's monetary responsibilities, in 1983.

Since then, despite its size – only 100 employees, about two-thirds engaged in banking supervision, to keep an eye on Luxembourg's 200-plus banks – it has gained a reputation for quiet efficiency. Only once has that reputation been seriously challenged; by the 1991 collapse of the Bank of Credit and Commerce International, nominally headquartered in Luxembourg.

Mr Jaans admits that BCCI was his most "difficult moment", because the IML, along with banking supervisors in London and elsewhere, was sternly criticised for not having spotted the problems sooner. In fact, Mr Jaans had several times warned that Luxembourg was not equipped to monitor BCCI, when so much of its operations were outside Luxembourg, and he had tried to get it incorporated in a larger financial centre such as London.

"BCCI here had 60-80 people," he says. "Worldwide, it had 14,000 people."

He says some of the criticisms aimed at the IML and other regulators were unfair and misconceived.

While the IML will lose its monetary functions post-Emu, its supervisory function is likely to be increased. European monetary union will spell the end of Luxembourg's bilateral union with Belgium and Mr Jaans has agreed with Mr Alfons Verplaetse, governor of the Belgian national bank, that the institute will take over the Belgian bank's office and staff in Luxembourg – boosting its staff from 100 to nearly 160 people.

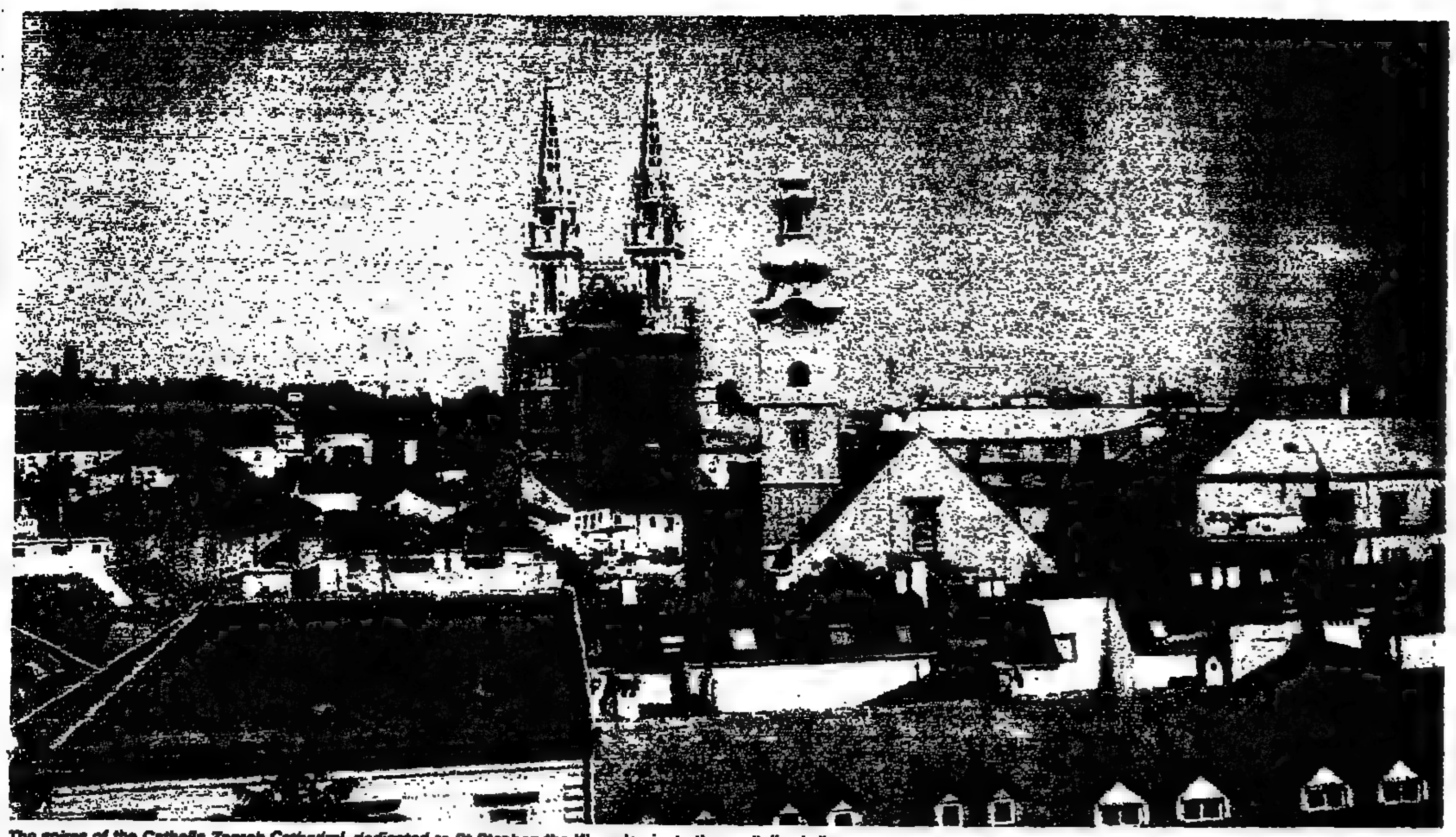
The IML will lose its sovereignty, but by then, Mr Jaans says, it will have fulfilled the function for which it was set up – to guarantee Luxembourg a seat at the table in the discussions, and on the board of the future European central bank.

"We will become district bank number such-and-such of the European bank, serving the Luxembourg financial community," says Mr Jaans.

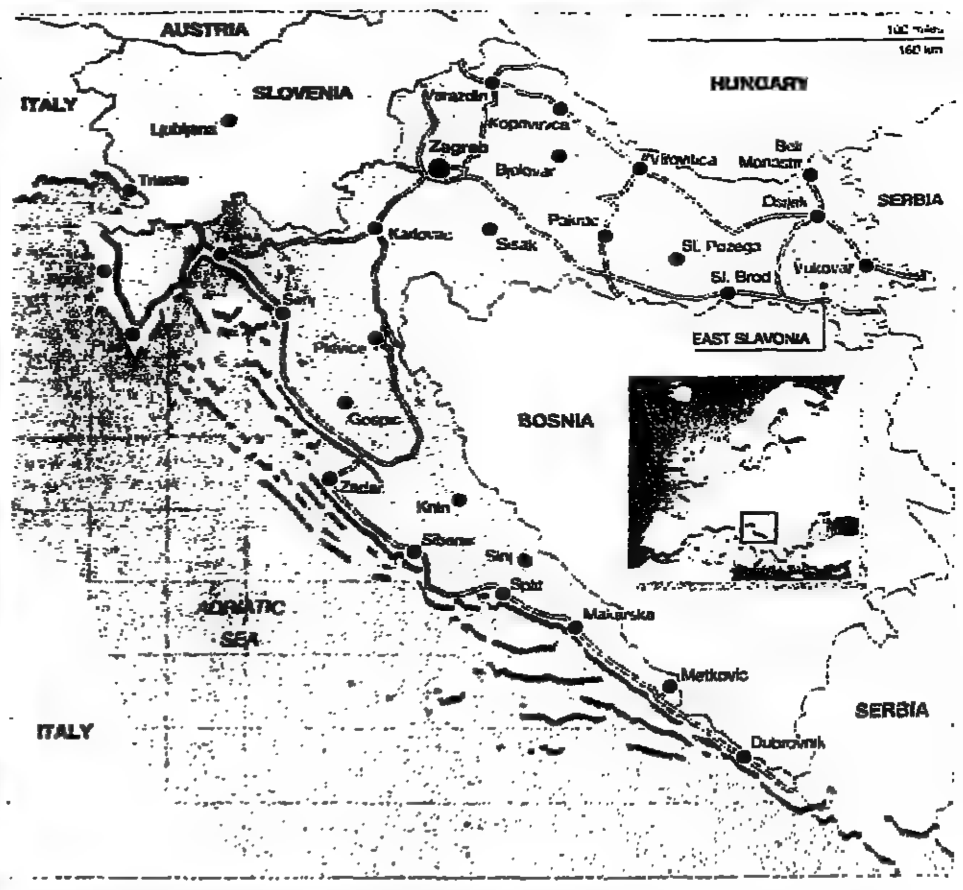
"But I have no misgivings about that whatsoever," he adds, "After all, for 10 years of my life I worked in what will be district bank number one."

Neil Buckley

CROATIA


The spires of the Catholic Zagreb Cathedral, dedicated to St Stephen the King, dominate the capital's skyline

Anthony Robinson



Victory – but with a darker side

Laura Silber and Anthony Robinson examine the difficult challenges facing the government at home and abroad after years of brutal and costly civil war

Historians will long debate whether the irreconcilable claims of Croatian and Serb nationalism inevitably required a violent resolution, or whether the dissolution of Yugoslavia could have taken place peacefully, by negotiation not war.

Five years after war erupted, however, Croatia has emerged as a winner. After initially losing nearly 30 per cent of its territory in the six-month struggle between the poorly armed Croatian militia and Serb rebels backed by the Yugoslav Peoples' Army (JNA) in 1991, it is poised peacefully *to recover the last of its lost* territory and for resumed economic growth.

But it is a success story with a dark side.

The Croatian army regained western Slavonia and Krajina last year in two blitzkrieg campaigns which led to the flight of over 150,000 Serbs from lands they had populated for centuries.

That victory was blighted by the destruction of an estimated 20,000 Serb homes and the murder *of many of those, mainly* old people, who remained in the abandoned towns and villages.

This method of waging war, already sadly familiar in the earlier ethnic purging of previously mixed regions by Serbs and by all parties in Bosnia, has gone largely unreported, by contrast with blanket coverage *of earlier atrocities.*

The reasons for silence help to illuminate both the domestic political situation and the international environment within which Croatia, despite its small 4.7m population, has emerged as a US-backed power to be reckoned with in the Balkans.

Croatia's vocal opposition parties refrained from comment on the Krajina atrocities for fear of being tarred with unpatriotic behaviour.

Mr Ivan Zvonimir Cicak, leader of the Croatian Helsinki human rights monitoring association (HHO) has been a virtually lone voice of moral outrage against what he believes is a government-sanctioned policy of murder and harassment in the re-occupied lands.

Western governments turned a blind eye to the build-up of the Croatian army and formally called for restraint during and after the fighting.

But they barely disguised their relief that the territorial gains, especially the wiping out of indefensible pockets of land in Bosnia, created a *de facto* division of forces which *helped to make last December's* Dayton peace agreements possible.

It was left to the foreign ministers of the European Council to voice the strongest concern over Croatia's human rights record and democratic credentials by postponing indefinitely Croatia's entry into post-war Europe's oldest organisation *earlier this month.*

The decision infuriated President Franjo Tudjman, the former communist general turned *nationalist, who led the fight* for independence and who portrays Croatia as a bulwark of Christian civilisation and democracy.

The president is by far the most powerful political figure in the country as commander of the armed forces and leader of the Croatian Democratic Union (HDZ).

But the HDZ, which re-emerged as the largest single party after last October's general elections, fell far short of *the hoped-for two thirds major*ity which would have allowed it to re-write the constitution. In addition, the HDZ failed to win control over Zagreb, the capital, and other big towns.

October's vote showed that after five years of war, tension and economic deprivation, an increasing number of Croats appeared to be tiring of living in the extraordinary times which demanded a charismatic leader.

"We have survived as a nation and a state. The question now is what kind of state do we want to build and how should people live within it," says Mr Ivica Racan, leader of the Party of Democratic Changes, a social-democratic opposition party.

"The way in which Croatia treats the Serbs will define what kind of country it becomes. *It will* either end up as a mono-ethnic state wrapped up in its national symbols, or become a truly democratic state in which all its people enjoy rights based on their citizenship," a prominent western diplomat adds.

The last remaining part of the country still in rebel Serb hands is eastern Slavonia. But *Mr Mate Granic, the foreign* minister, says he is "now optimistic for the first time about prospects for the peaceful re-integration of eastern Slavonia."

This would not have been possible without the US-brokered Dayton accords and the steady progress towards the normalisation of relations with Serbia. This has already lead to the *re-opening of* the Zagreb-Belgrade motorway, which links Europe to the Middle East, and the Adriatic oil pipe*line from the Croatian island* of Krk to Pancevo refinery near Belgrade. Telephone links have also been restored and the rail connection is due to be restored shortly.

Another foreign policy priority for Croatia is making sure that the peace process in Bosnia-Hercegovina remains on track. "The Croat-Moslem Federation is a basis *for peace* and stability in the region," says Mr Granic who describes all other options as "painful and *unacceptable for Croatia.*"

If the Dayton and eastern Slavonia agreements are implemented successfully, Croatia believes another reward will be within reach: membership in Nato's Partnership for Peace by the end of the year.

Croatian officials see this step towards Nato as crucial to ensuring Croatian security.

But Croatia's relationship with the European Union is a chequered one. Relations with Bonn, which along with Austria, played a decisive role in advocating Croatian independence at the onset of war, cooled after the collapse of the Moslem-Croat alliance in 1993. They have chilled further with Bonn's support for opposition *parties and criticism of the* government's civil rights record.

Austria is Croatia's biggest *foreign* investor and Croats *see* Vienna as one of their closest allies while neighbouring Slovenia is the third largest trading partner.

Croatia also seeks closer relations with Albania, Greece, Turkey, Bulgaria, Romania and Italy while keeping close touch with the large Croatian diaspora which provides impor*tant financial support.*

The government hopes Croatia will be accepted as a full member of the EU early in the next century and has already made substantial progress towards a market-based economy.

An economic stabilisation policy introduced in 1993 has been strictly adhered to. The successful introduction of a new national currency, the kuna, in 1994 has been facilitated by a tight monetary and fiscal policy which cut inflation to 3.5 per cent last year.

In April, Pliva, the innovative pharmaceutical company which is the jewel in Croatia's economic crown, raised the country's international profile by becoming the first east and central European company to get a listing on the London Stock exchange after raising $160m from *foreign investors.*

Meanwhile, the successful renegotiation of Croatia's $4.7bn debt to creditors of the *London and Paris clubs has* paved the way for an international credit rating later this year and opened the doors to further *foreign* borrowing.

After years of the destruction of war and the huge sacrifices demanded from the population to build up an army, the economy is now poised for rapid growth of between 5-7 per cent this year.

The prospect of rapid growth holds out the opportunity to build the middle class required to underpin democracy.

President Tudjman, obsessed with changing foreign perceptions of Croatia as a Balkan country, wants this beautiful country of high mountains, Adriatic islands and lush valleys *to be seen as part of* central Europe, as much an heir to the civilised Hapsburg legacy as Hungary or the Czech republic.

Croatia is not there yet. But it is on its way. For future behaviour in eastern Slavonia and Bosnia, and the treatment of the media and the opposition, could well decide the outcome.

KEY FACTS

Area	56,538 sq km
Population	4.8 million
Head of state	President Franjo Tudjman
Currency	kuna (HRK)
Average exchange rate	1995 $1=HRK5.2300; 10/5/96 $1=HRK5.532

ECONOMY

	1995	1996*
Total GDP ($bn)	18.7	n.a.
Real GDP growth (%)	2.5	4.5
GDP per caput ($)	3,487	n.a.
Agriculture as % of GDP	11.6	n.a.
Retail prices (% change pa)	3.7	5.0
Ind. production (% change pa)	1.0	5.0
Unemployment (% of lab force)	16.8	16.5
Reserves minus gold ($bn)	2.0	2.8
Broad money growth (% pa)	33.0	20.0
Discount rate (% pa,year end)	8.5	7.0
Budget balance (% of GDP)	-0.5	-1.8
Current account balance ($bn)	-1.5	-1.5
Exports ($bn)	4.6	n.a.
Imports ($bn)	7.5	n.a.
Trade balance ($bn)	-2.9	n.a.
Trade partners 1995 % by value	Exports	Imports
Italy	23.7	18.2
Germany	21.5	20.1
Slovenia	13.1	10.7
Austria	4.3	7.7

* = Forecasts. *Sources: National statistics, Economist Intelligence Unit, Datastream, IMF, Nomura Research Institute.*

IN THIS SURVEY

■ **Economy:** by Anthony Robinson and Gavin Gray

Miracles take a little longer

Ministers have achieved much in recent years, but more restructuring is needed

Croatia has built an enviable reputation for sound economic *management over* the last two years by sticking to the economic stabilisation plan introduced in the autumn of 1993. Thanks to *tough fiscal* and monetary discipline, Zagreb has been able to create a new state, build up an army, finance a war, and *support* a flood of refugees – while keeping inflation well within single digits.

This "economic miracle" has been paid for by a steep decline in living standards – with the ostentatious exception of the resented "new class" of war profiteers who lounge in the pavement cafés and roar through town in expensive imported cars, mobile phone in hand.

The first difficult years of the new state have weighed especially heavily on the large number of Croats who *lost* their savings in blocked foreign exchange accounts in 1991 and had the value of other assets wiped out by the hyperinflation that preceded the stabilisation plan.

But macroeconomic stability, paid for by high taxes, high interest rates and a tight rein on non-military spending allowed the successful introduction of a stable new national currency, the kuna, in 1994 and has attracted the attention of the international financial community.

The combination of macroeconomic rectitude and the *return of a still somewhat* uneasy peace has laid the foundations for the economic growth that is now in prospect. Mr Bozo Prka, the *finance minister*, forecasts 5-7 per cent growth for 1996, made possible partly by a cutback in military spending. This allows a *shift of* resources to the reconstruction of war-damaged regions and infrastructure development, including an ambitious and much-needed *highway building* programme.

Defence spending, officially 10 per cent of GDP but believed to be much higher, is budgeted to drop by over 15 per cent this year. Ministers also promise tough action to cut the losses of the big formerly "socially-owned" enterprises and speed up bank restructuring.

"The war concentrated our minds on the need for privatisation, bank restructuring and a new fiscal system," says Mr Borislav Skegro, the deputy minister who has overall responsibility for economic and financial reform.

Fiscal *reform* will be virtually completed next year when a 22 per cent value added tax will be introduced. This should *broaden the tax base by drawing* more of the large "grey economy" into the tax-paying category. Meanwhile, success*ful foreign debt negotiations* are also expected to facilitate cheaper foreign borrowing.

Croatia's re-entry into foreign capital markets took off in *style earlier this year when the* government raised $160m through an offer of shares and Global Depository Receipts in the *Pliva* pharmaceutical company. The issue was 20 times over-subscribed.

The warm international response was partly a tribute to Croatia's best run and highly profitable enterprise. But it was also the first tangible evidence of the "peace dividend" following last December's Dayton accords and Croatia's agreement with the Paris Club of official creditors last year for the rescheduling of $3.4bn in official debt.

The Paris Club agreement was followed in April this year by agreement in principle with the London Club of over 350 *commercial bank creditors* under which Croatia agreed to assume 29.5 per cent of the "joint and several liabilities" of

Continued on page 2

■ **Foreign debt:** by Gavin Gray

The way is opened up to borrowing

Settlement of debts linked to ex-Yugoslavia eases the struggle out of financial isolation

Croatia is in the final stages of arranging a settlement of its share of former Yugoslavia's \$4.7bn commercial bank debt.

If approved by the creditors, the deal will sever most of Croatia's financial links with the former state and clear the way for a new wave of foreign borrowing to finance reconstruction. Croatia has been unable to borrow abroad for most of the five years since independence, because western banks thought the political risk was too high.

The fears diminished substantially during 1995 after the Croatian army's successful assault on Krajina, a region hitherto held by rebel Serbs, and after the Dayton agreement, signed in December, brought an end to fighting in neighbouring Bosnia.

This opened the way for Croatia's first issue in the international syndicated loan market. HBOR, a government reconstruction bank, raised DM50m (\$33m) in January. The terms were harsh: HBOR must repay the loan in a mere 18 months and the interest bill is a high 275 basis points over the London interbank offered rate (Libor). This reflected in part the uncertainties about Croatia's debt burden, a second reason for western banks' earlier reluctance to lend. The situation became much clearer in late April when the government declared that it had reached an agreement in principle to assume 29.5 per cent of the former Yugoslav debt. Croatia's cost of funds fell immediately.

"We are now in the position to borrow at below 200 basis points over," says Mr Bozo Prka, finance minister. Croatian commercial banks, many of which had problems last year convincing western banks to confirm their letters of credit, report that short-term lines are now being offered at spreads of 150 basis points over Libor. This represents a substantial improvement on the country's position in 1993, when it was put on hold by multilateral financial institutions as punishment for its involvement in the war in Bosnia. It was not until September 1994 that the World Bank and the European Bank for Reconstruction and Development granted their first loans. The government is presently negotiating a new World Bank facility to finance bank rehabilitation and the restructuring of troubled enterprises.

But the resumption of World Bank lending was not just a political decision. It also required a settlement on Croatia's share of former Yugoslavia's World Bank debt, which was complicated because some of the loans were for the federal government and could not be linked to specific projects in specific republics. It was not immediately obvious what share of these non-allocated loans should be assumed by each republic.

In the end, the World Bank and Croatia agreed that it would be assigned 28.49 per cent of the non-allocated loans.

The same issue arose last year when Croatia opened negotiations about its share of former Yugoslavia's debts to sovereign governments, a group of creditors known as the Paris Club. A settlement was reached in May in which the 28.49 per cent figure was used once more. The creditors agreed to reschedule the loans over 14 years and past due interest over five years.

This agreement, which was confirmed through a series of bilateral treaties in the autumn, cleared the way for foreign export credit agencies to provide insurance cover and guarantees for exports to the country. The hardest knot to untangle, however, was always going to be Croatia's share of former Yugoslavia's debts to commercial banks, known as the London Club debt.

Two factors made this even more complicated to apportion than other types of debt. At Yugoslavia's last rescheduling, the 1988 New Financing Agreement (NFA), all six republics had provided a joint and several guarantee for the total debt, which meant that Croatia could have been held liable for the entire amount.

Another problem was that the debt had been actively traded in the secondary market and a significant portion was held by Serb-controlled banks and other Serb-related entities. Croatia was opposed to paying them, since it believed these banks had used former Yugoslavia's foreign currency reserves – part of which belong to Croatia, it argues – to fund these purchases.

Despite these obstacles in late April Croatia reached a settlement after only 10 days of negotiations with the International Co-ordinating Committee (ICC) representing the London Club of commercial banks.

It agreed to assume 29.5 per cent of the NFA debt and will issue two series of bonds. Unmatured loans will be exchanged for a 14-year bond with a three-and-a-half year grace period. Matured loans and past due interest will be repaid over 10 years.

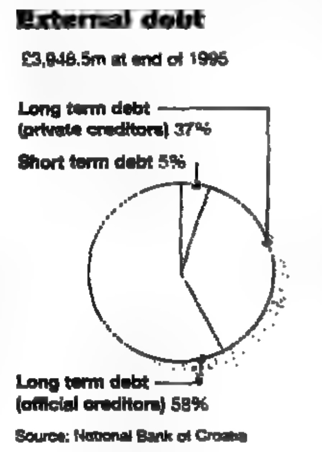
The debt deal must now be approved by two-thirds of the banks holding the debt and Mr Prka hopes to complete this by the end of May, with the exchange of bonds taking place in late August or September.

Serb-controlled banks, which are estimated to own 15 per cent of the NFA, are expected to vote against the deal, but the biggest threat may come in the courts. In March, rump Yugoslavia launched a court action against Slovenia, which agreed a similar deal last June, and it has threatened to open similar proceedings against Croatia. Both the Slovenian government and the ICC dismissed the action as irrelevant, and Zagreb says it will proceed with its debt settlement.

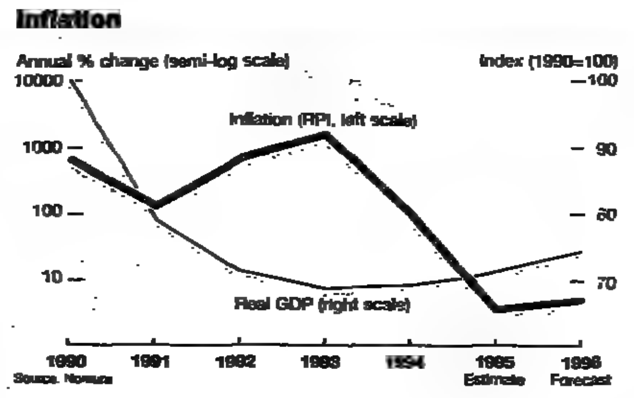
If approved, Croatia's London Club deal will lift its external debt from \$3.4bn to just over \$5bn. Mr Prka says this represents only 35 per cent of GDP, which can be serviced by 6-8 per cent of export earnings.

Once the debt deal is approved by two-thirds of the creditors, Croatia intends to launch its first issue in the Eurobond market, a \$150m-\$200m short-term offering. "We have shown our political willingness and economic ability to repay our debt," says Mr Prka. "After the London club, we will achieve full normalisation of our relations with the financial world and gain complete access to the capital markets. Croatia will never default, because we know what would happen. We would not like to be financially isolated as we have been in the past three to four years."

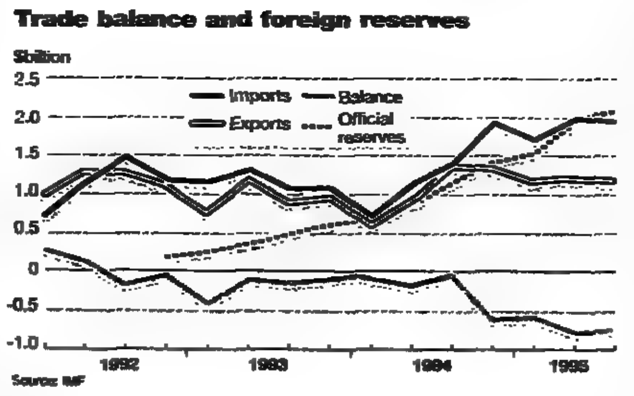
External debt



Inflation



Trade balance and foreign reserves



■ **Business traveller's guide to Zagreb:** by Gavin Gray and Laura Silber

Normal life returns

Zagreb presents fewer practical problems than many other east European cities

A trip to Zagreb, the capital of Croatia, should be a nice surprise for travellers whose impressions of the country were formed from television footage of the war in 1991. It is a pleasant city where life seems to be running normally against the backdrop of some fine Hapsburg architecture. The city was last bombed in May 1995 and further attacks are unlikely.

It is less pleasant that the war lifted prices well above the level in other east European capitals. A taxi from Pleso, Zagreb's airport, to the city centre can cost 250 kunas (\$45) for a 30-minute ride. A glass of Croatian beer on Tkalciceva street, a popular drinking spot near the old town, costs 15 kunas. The biggest expense is international telephone calls. If you are staying in a hotel, it is easy to run up a bill close to the cost of the room itself.

Zagreb has three hotels for business travellers. Most still stay at the Intercontinental (Telephone:385 1 455 3411), the hotel of choice for the floating army of visiting Nato and IFOR officials. But first impressions are marred by its ugly Lego-brick style facade. Its main rival is the Hotel Sheraton (Tel:385 1 455 3535). It opened last year but some facilities are not operating yet. The Hotel Esplanade (Tel:385 1 456 6666), has the best location of the three and retains a certain Hapsburg grandeur. The three hotels all charge about DM300 per night for a single room (Croatians invariably quote prices and large sums of money in D-Marks rather than dollars). All three hotels are five to 10 minutes' walk from Jelacic square, with the equestrian statue of Duke Josip Jelacic, a Croatian national hero. Above the square, rises the old town (*gornji grad*), with winding, cobbled streets and baroque houses and many of the city's official buildings including parliament and the cathedral, which is being repaired. This part of town is also home to some of the city's more attractive restaurants, including Pod Grickim Topom (tel:430 690), on Zakmardijeve stube close to the funicular railway. Zagreb also has some good fish restaurants, including the bustling Karaka on Andrija Hebrang street (tel:442 075). A fine place for lunch or dinner, especially in summer, is Sestinski Lagvic (tel 426 466), a restaurant serving typical Croatian food. It is a 20-minute drive into the wooded hills above the city with splendid views from the balcony and folk music by night.

Zagreb, and Croatia in general, present business travellers with fewer practical problems than many other east European cities. EU citizens do not need visas, while US citizens can obtain them on the border. There is no problem changing foreign currency. Credit cards, apart from Visa, are widely accepted and holders of Mastercard and Cirrus cards can withdraw cash from Zagrebacka Banka ATMs.

Many Croats speak foreign languages. German is widely spoken, because of the large Croat population in Germany, and Italian is spoken in the coastal regions. Most politicians and business people are fluent in English. The same applies to Zagreb's waiters and bar staff, who have become accustomed to serving the city's large contingent of UN and IFOR personnel.

Despite all this, Zagreb can become oppressive if you are staying for more than a couple of days. Security is tight and you need to show your passport to get into most government buildings and companies. There are many policemen and soldiers on the streets.

If it all becomes too much for you, take a trip out of town. Life is much more relaxed in Varazdin, 60 kilometres to the east, which is a cosy town with architecture rivalling Zagreb's. If you have a weekend free, Croatia's 1,000 km of spectacular Adriatic coastline dotted with more than a thousand islands has much to offer. On the Istrian peninsular, a four-hour drive from Zagreb, the town of Rovinj is beautiful. History buffs will love Pula, on the southern tip of Istria, which is an old Roman town with an amphitheatre.

Transport is a problem. Car hire starts from \$180 a day and many roads are winding single tracks. Croatian Airlines (Tel:385 1 455 1244) flies to several cities including Split, the Dalmatian port, and Dubrovnik. Foreigners are charged more than Croats and the cost can seem exorbitant for the short distances involved.

If you cannot leave Zagreb, there are plenty of leisure opportunities. The Mimara museum displays the art collection of the late Ante Topic. On the eastern outskirts lies Maksimir park with a zoo and some scenic walks. Sports fanatics should head to Jarun, a lake 30 minutes' drive south-west of the centre.

PROFILE Marko Skreb

A stabilising factor

Mr Marko Skreb, the recently appointed governor of the National Bank of Croatia, is one of the main architects of Croatia's stabilisation programme. Ironically, it has been so successful that he is now under growing pressure to stop the currency appreciating further as central bank reserves have risen strongly from virtually zero five years ago to \$1.9bn.

He is under pressure from business lobbies, especially the debt-ridden publicly owned sector, to reduce the very high commercial bank lending rates. These range from 15-23 per cent annually for the larger companies to a crippling 3-5 per cent monthly for small enterprises. Inflation last year was only 3.5 per cent on an annual basis.

Capital inflows are being partially sterilised by forcing commercial banks to keep over 50 per cent of their foreign currency deposits with foreign banks. But this has not prevented a *de facto* revaluation of the kuna over the last six months which has discouraged exports and fuelled a sharp rise in imports. Last year the current account dipped into a \$1.71bn deficit, nearly 10 per cent of GDP, despite a \$812m surplus in services, mainly tourism. The deficit reflected a 47 per cent surge in imports last year which pushed the trade account \$2.87bn into the red, compared with a \$970m deficit in 1994. Exports, by contrast, rose only 8.7 per cent. The trend continues into 1996.

Faced with mounting evidence of an over-valued currency Mr Skreb accepts what he calls "the need to avoid currency appreciation due to strong capital inflows." But the tough young technocrat who, unlike his predecessor, is not a member of the ruling party, remains determined to resist pressures to print more money or lower interest rates. "The real problem is not a physical shortage of kuna, nor an over-valued exchange rate, but the slow progress in cutting enterprise costs and the delays in restructuring the bad-loan portfolios of the big state-owned banks," he says. He is scathing about the managers of big state-owned enterprises who do not know their real costs of production or how to cut out loss-making sectors but who constantly press for more and cheaper money.

Mr Skreb is a strong advocate of greater transparency in the banking system and radical reform of the current social security system which doubles employers' wage costs.

Anthony Robinson

State assets

Continued from page 1

former Yugoslavia. On this basis Croatia's share of the debts of former Yugoslavia amounts to \$1.5bn, raising total foreign debt to \$4.9bn, roughly 25 per cent of Croatia's projected 1996 gross domestic product of around \$18bn.

The finance ministry calculates that servicing foreign debt will initially absorb a manageable 6-8 per cent of annual export revenues. The debt agreements pave the way both for renewed foreign borrowing and a rating from the international rating agencies which should reduce future borrowing costs.

Meanwhile, the primitive state of Croatia's fledgling domestic capital markets increases the urgency of tackling the inherited bad debt problems of the five big banks, which still account for over 70 per cent of the banking market.

The main problem is Privredna Banka Zagreb (PBZ) which is stuffed with non-performing loans to many of Croatia's largest companies, some of which were conduits for arms imports.

Tackling the bad debts of PBZ will require a political commitment to structural reform and transparency that remains to be proved.

For behind the debts lie the problems of companies such as INA, the state owned oil company, which borrowed abroad heavily in the 1970s to build refineries and pipelines designed to serve the entire Yugoslav market of 23.5m people but which have been working at a fraction of capacity for years. INA has developed over the years as a sprawling conglomerate which alone accounts for nearly 20 per cent of Croatia's GDP.

But the list of dinosaurs to be slimmed down includes other big employers such as the state railways, the shipyards, the Croatian Electricity company (HEP), the Sisak steel mill and big engineering companies such as Koncar and the Djuro Djakovic tank and armaments factory.

The process of restructuring has begun, as demonstrated by a drop in industrial production of more than 40 per cent since 1991, the closure of a few big plants such as the highly polluting Bakar coking plant near Rijeka and retrenchment at the shipyards and several other industrial complexes.

But private bankers believe further politically difficult decisions are needed if sufficient resources are to be freed up for investment in potential growth sectors including tourism, a sector that needs big investment and a much more competitive exchange rate if it is to fulfil its potential as the economy's top hard currency earner.

Faster growth is needed above all to provide jobs for the 150,000 soldiers being demobilised and to cut a 19 per cent unemployment rate. The danger is that unemployment could rise further unless the private sector, which now accounts for approximately 50 per cent of both output and employment, obtains better access to cheaper credit. Only then will the private sector be able to take up the slack that has been caused by the slimming down of the public sector and the impact of war and the loss of the unified Yugoslav market.

PROFILE **President Franjo Tudjman**

The true believer

President Franjo Tudjman is a true believer whose dream came true.

For decades he nurtured the idea that he would restore the independence which Croatia lost a thousand years ago. Today the 74-year-old former communist general turned jailed nationalist dissident sits in a presidential palace built by Tito in the wooded hills above Zagreb surrounded by the symbols of his new state.

Behind his desk stands Croatia's ubiquitous red and white chequer-board flag on its red, white and blue background. On the wall hangs a huge painting of King Tomislav, the legendary founder of the first Croatian state. The king is on horseback receiving the homage of his loyal subjects.

Six years ago the forceful, silver-haired leader steered his party, the Croatian Democratic Union (HDZ), to a landslide victory in the first free elections. The tide of popular support that swept him to power was a mirror image of the fervour whipped up in Serbia by his counterpart, President Slobodan Milosevic, another former high-ranking communist official to wrap himself in the national flag.

But there is a big difference between the two men. For Mr Tudjman, securing the independence of Croatia was a matter of conviction. For Mr Milosevic, as subsequent events have proved, Greater Serb Nationalism was merely a means to gain and retain power. After the trauma of 1991, when rebel Serbs occupied 30 per cent of the territory, Mr Tudjman steadily consolidated his position. He backed the creation of a modern army in violation of a UN-imposed arms embargo but with financial support from the 3.5m strong Croatian diaspora, a blind eye from the EU and the help of retired US generals.

In 1993 Mr Tudjman went to war against the Moslems to carve out a Croatian mini-state in Bosnia. By the end of the year, however, Washington gave Mr Tudjman a simple choice: either stop the war against the Moslems and receive US backing for the recovery of Serb-held lands, or face sanctions and isolation.

He chose to side with Washington. The US link strengthened after the Washington accords of 1994 when Mr Tudjman formally gave up his original plan to carve up Bosnia with Mr Milosevic and agreed to Washington's plans for a Croat-Moslem federation. From then on Washington was on Mr Tudjman's side, and the strategic balance decisively changed.

A poster plastered throughout Croatia immediately after the army's re-conquest of Krajina last August showed Mr Tudjman, his arms' raised in victory with the slogan, "the man who wins". Strategic road and rail links between central Croatia and the Adriatic ports were quickly re-opened and a few months later Mr Tudjman led his party to another electoral victory. But he fell short of winning the two thirds majority needed to write stronger presidential powers into the constitution.

Franjo Tudjman: 'restored Croatia's long-lost independence' Reuter

Having fought four elections over the last six years while battling against what he describes as "Yugo-communist Serbian aggression", Mr Tudjman was furious when European foreign ministers questioned Croatia's democratic credentials earlier this month and postponed indefinitely Croatia's entry into the European Council.

His anger reflected barely disguised contempt at Europe's role in the Balkans. "Disunited Europe was unable to solve the Yugoslav and Bosnian crises. It is united only in trying to discredit the Dayton agreement because that was reached under the stewardship of the US. They want to discredit Dayton at the expense of Croatia. But we will not become anyone's colony," he added.

Citing 21 reservations about Croatia's record in the field of human rights and press freedom, European foreign ministers delivered what Mr Tudjman sees as an insult to the democratic record of the new state. Instead of considering the steps needed to redress European concerns, however, he is bluntly unapologetic. The independent media "criticises everything that Croatia has succeeded in creating. That is not democracy; it is anarchy," he says.

But he is evasive and defensive when tackled on the central criticism of his regime – that it sanctioned the murder of hundreds of mainly aged Serbs who remained in Krajina after the Croatian army re-occupation, and destroyed their homes to make sure they never returned to where they had lived for centuries. "More than 400,000 Croats, Hungarians, Czech and Ruthenes, all non-Serbs, were expelled during the aggression by the Serb and Yugo-communist army to conquer Croat territory and make it part of Greater Serbia. Many Croats and Moslems were also expelled from Bosnia-Herzegovina," he recalls. "These people, who were expelled from their homes, whose nearest relations were killed, could not be controlled after the liberation, even though we ordered, stopped and even tried those who carried out crimes. There were even court martials," he said.

As for the expulsion of Serbs, Mr Tudjman added "the Croatian government, and I personally, appealed to all those (Serbs) who did not commit crimes, even those who took part in the uprising, to remain. But they collectively felt so guilty that they abandoned western Slavonia and Knin."

"The world is now accusing Croatia for that. But why did the Serbs also leave Sarajevo when Europe, the US and Nato were all there? Why did the Serbs also leave the land that was returning to Moslem control? They even dug up their dead which is horrible. It is because the Serbs in Croatia treated it as their colony and in Bosnia it was the same thing. They left like colonialists, like the French left Algeria," he added.

Several times Mr Tudjman repeated his belief that Croatia is not part of the Balkans, but of central Europe. Future relations between the former republics of Yugoslavia should be based on the Scandinavian model of co-operation between sovereign states, he adds.

With outstretched arms, he explains that normalisation between Zagreb and Belgrade is necessary for what he calls the "Scandinavisation" of the region. "Normalisation between the Serbs and the Croats, the biggest nations in this region, is as important as the reconciliation between France and Germany after the second world war. The consolidation of peace between those two countries made the creation of the European Union possible," he added.

In the same breath, however, he repeats that Croats share more with central Europe than with their former countrymen, although recent history tells a different story – of communities interlinked for centuries now torn apart by war.

The Croatian leader is unable to disguise his antipathy to Bosnia's Moslems, whom he sees as ethnic Croats who succumbed to the Turkish invaders five hundred years ago. But with continuing American support hinged largely on Zagreb's co-operation with the Bosnian Moslems he says he supports the Moslem-Croatian federation which was allocated 51 per cent of Bosnia-Hercegovina by the Dayton agreements.

"In spite of the deep, civilisational nature of the differences between Croats and Moslems, the federation should survive because of the strategic, geopolitical link between Croatia and Bosnia-Herzegovina," he says.

Laura Silber and Anthony Robinson

■ **Media:** by Gavin Gray and Laura Silber

The door is shutting on criticism

The government is fighting a dour battle against the media as intently as it waged war

The last two issues of Feral Tribune, the independent satirical weekly, have featured President Franjo Tudjman prominently on the front page. In the first edition, a doctored photo portrayed him as a jovial clown with a bulbous red nose, while a photomontage in the next issue showed the metamorphosis of the late Josip Broz Tito, the founder of communist Yugoslavia into President Tudjman himself.

From this you might induce that Croatia enjoys a very free press. But the approach of the ruling Croatian Democratic Union (HDZ) is nearly as authoritarian as the regime it replaced.

Even though the war is over, the government is still fighting a fierce battle against the country's few independent newspapers and retains an iron grip over the state-owned media.

Croatian state television is Mr Tudjman's personal mouthpiece. The evening news, by far the most influential programme, devotes considerable time to the President's daily engagements regardless of their importance. There is scarce mention of the opposition.

The HDZ's media monopoly reached its zenith during the election campaign last October. So enthusiastic was the promotion of the ruling party and Mr Tudjman, its leader, that television viewers were given the impression that he himself was running for office even though his term does not expire until 1997.

Speaking under a picture of Mr Tudjman, whom he calls the "Croatian Bismarck," Mr Nenad Ivankovic, editor of Vjesnik, the country's main state-run daily, says the picture there is changing. It has reverted to its old broadsheet format and has even published articles by opposition politicians.

"There are some limits that I would like to cross, but we have to consider the political environment we operate in," says Mr Ivankovic, who claims that the press' appearance of being under state control is mainly because of self-censorship.

But last month, Mr Ivankovic published a document purporting to reveal that Mr Ivan Zvonimir Cicak, Croatia's most outspoken human rights campaigner, had been an informant for the Yugoslav secret police.

Mr Cicak, whose prosecution at the hands of the Communist regime gives him impeccable nationalist credentials, including three years in prison from the age of 24, is virtually a lone voice of public protest against the hundreds of murders of Serb civilians, and the looting and torching of Serb homes during the Croatian army's offensive in Krajina last August.

In spite of a campaign of continued harassment, however, a handful of independent media, including Radio 101 in Zagreb, have kept journalism alive in Croatia.

Last month, under a new press law, Croatia's public prosecutor filed three suits against Feral Tribune for "destroying the statesmanlike quality and personal integrity" of President Tudjman. Feral is Croatia's equivalent to Britain's Private Eye, but also runs serious political analysis and sheds light on subjects which the most of the rest of the press ignores or underplays.

The fate of Novi List from the Adriatic port of Rijeka, the biggest independent regional paper, has also become uncertain. With a daily circulation of 40,000, it is small fry even by Croatian standards, but it has gained popularity among the elite for the accuracy and independence of its reporting.

The Croatian government has twice challenged the privatisation of Novi List in an attempt to assert control. In April, the government launched a more subtle attack when the ministry of finance accused the paper of failing to pay import duties on a printing press and evading sales taxes. The printing press was a gift from the Italian government and not subject to such taxes. Novi List also uses the press to print the Italian language newspaper, La Voce del Popolo which serves the region's Italian minority and is the reason for the Italian government's donation. The affair also risks damaging relations with Italy.

Mr Miljenko Morin, a journalist on the paper, says the government's action is an attempt to muzzle Novi List which opens its columns to all political and social view points in an area where the HDZ gets little more than 20 per cent of the vote.

The vigour with which the government has pursued the case against Novi List and libel actions against several other papers have surprised Croatian journalists since control over television already gives the regime power to shape public opinion. "The fact is that Croatia does not yet have the preconditions for a free press. There is no private national television station and there is no independent national newspaper," explains Mr Davor Butkovic, editor-in-chief of Globus, a more mainstream Zagreb-based weekly, which was founded in 1990.

Mr Tudjman however says the public welcomed legal action against reporters whom he castigates as "ideologues of the Yugoslav communist regime, the children of Yugoslav Army officers, and the offspring of mixed Serbian marriages.

"I get letters, from ordinary citizens to university professors. They ask me: 'Mr President, why does the state allow such stupidity and humiliation of Croatia?'" he says.

Ivan Cicak: a most outspoken human rights campaigner Anthony Robinson

A recalcitrant Mr Tudjman dismissed as "completely unfounded and unacceptable" EU and US concerns about Croatia's suppression of the freedom of press. "It is not freedom of the press. It is not democracy, it is anarchy," he says.

■ **Politics:** by Laura Silber

No victory at the polls

The voting pattern suggested that, with war over, the political climate was changing

After the Croatian army crushed the rebel Serbs in Krajina last August, President Franjo Tudjman called snap elections.

He was convinced his party would capitalise royally on the victory.

But the ruling Croatian Democratic Union (HDZ) fell far short of the two thirds majority it was seeking in the Sabor, the Croatian parliament, and lost control over the biggest towns and cities.

The HDZ spearheaded Croatia's drive for independence and was re-confirmed as by far the largest and most popular party.

It won 46 per cent of the votes and 75 seats in the 127 seat parliament.

But it failed to capture a majority in the capital, Zagreb, or in the Adriatic cities of Rijeka and Split.

It earlier lost control of Osijek, the regional capital of eastern Slavonia.

The voting pattern suggested that, with war over and the peaceful re-integration of eastern Slavonia imminent, the political climate was in the process of changing.

Tired of seeing a handful of people, mostly with links to the ruling party, get rich off the war while they got poor, urban voters, especially the inhabitants of Zagreb, no longer rallied blindly behind Mr Tudjman.

"The people of Zagreb showed they can live without a big boss," says Mr Ivica Racan, head of the Party of Democratic Changes, a left-of-centre party led by reformed former communists.

"But it will take some time for this view to spread to the rural areas around Zagreb because of the continuing wide gap between town and country," he added.

Mr Tudjman's instinct was to refuse to bow to the will of the Zagreb electorate.

"He simply cannot accept that the opposition was elected in Zagreb, so he complains the opposition is united only in opposition to him," said a western diplomat.

"The HDZ's further popular erosion is unstoppable," believes Mr Stipe Mesic, head of the Croatian Independent Democratics, who split off from the HDZ in protest against Mr Tudjman's moves to carve out a Croatian ethnic state in Bosnia.

"The HDZ is a movement not a political party. It includes a far wider spectrum of views than would be contained in a normal political party. With such a wide range of groups across the political spectrum it will fall apart," Mr Mesic predicts.

"While a third of Croatia remained in the hands of Serb rebels the HDZ, with its control of the media, was able to define the country's political parameters.

"Any protest against official policy was dismissed as unpatriotic, tantamount to national betrayal," he added.

It was this atmosphere which explains in part why the opposition remained silent about the harassment and killing of Serb civilians and the torching of thousands of Serb homes after Operation Storm.

"The opposition would have been politically dead had it spoken out against the violations.

"But if dozens of Serb homes had been destroyed, they could have been dismissed as isolated incidents. The destruction of 20,000 homes meant it was official policy," Mr Mesic now says.

The fractious opposition is now demanding a more effective role in the political life of the country.

"Croatia is finally emerging from the war crisis in which Tudjman and the HDZ prospered.

"But the HDZ can only continue to exist within an autocratic structure," Mr Racan says.

"The question is whether such a movement can transform itself into a party which can tolerate other parties and will also be prepared to give up power if it loses the elections. That is the big question," he adds.

■ **Eastern Slavonia:** by Anthony Robinson and Laura Silber

At the heart of the crucial matter

The challenge is whether next year there can be re-integration without violence

The character of the Croatian state and the tone of the crucial Croat-Serb relationship in the 21st century could well be decided by the outcome of current efforts to achieve the peaceful re-integration of Serb-held eastern Slavonia into Croatia.

The manner of the region's integration will test Croatia's commitment to co-existence between Serbs and Croats in this historically mixed region and the ability of General Jacques Klein, the American general who heads the 4,500 strong UN Transitional Authority of Eastern Slavonia (UNTAES), to facilitate reconciliation against daunting odds.

Eastern Slavonia, and the neighbouring regions of Baranja and western Srijem, occupies a fertile strip of rich black-earth soil and nodding oil donkeys at the north eastern tip of Croatia. The region is dotted with small towns and once-prosperous villages famous for their wine, wheat and timber.

It used to be home to a patchwork of Croatian, Serb, Hungarian, German, Jewish and other communities. But the multi-ethnic communities which prospered under the benign autocracy of the Hapsburg emperors and their Hungarian partners, have suffered badly in the twentieth century. The Jews were killed by the Nazi-supported Croatian Ustase regime in 1941. Most of the Germans and many Hungarians were expelled after the war. This area then saw the bloodiest conflicts during the Serb-Croat war of 1991 when local Serbs rebelled against Croatian independence, backed by the Yugoslav army.

Nearly five years ago Vukovar, a sleepy baroque town nestling in a broad bend of the tree-lined river Danube, was devastated in a three month bombardment from long range Yugoslav army artillery and tank fire followed by fierce hand-to-hand fighting. Today the town looks like the ruins of Pompeii while earthwork tank emplacements still stick out of the fields of growing wheat in the surrounding countryside. By now nature has softened the destruction. Wisteria creeps up the walls and wild flowers bloom amidst the rubble and collapsed roofs.

But the city's former Croat inhabitants – once slightly more numerous than the Serbs – remain refugees and Vukovar, like most of eastern Slavonia is still under the control of the local Serbs whose rebellion was supported by Belgrade.

Until last year, the widespread assumption was that eastern Slavonia would only return to Croatian control after a tough fight. Such a battle seemed imminent after the Croatian army's blitzkrieg victories last year against the demoralised Serbs. But after recovering western Slavonia and Krajina by force, US pressure dissuaded President Tudjman. At Dayton both the Serbian and Croatian leaders agreed that re-integration would take place peacefully.

Today, Vukovar can still only be approached from the west by UN vehicles or with special permission down a narrow country road between ruined villages and fields. Russian UN troops man roadblocks interposed between Croatian and local Serb militia posts.

But eastern Slavonia is now scheduled to be fully re-integrated into Croatia next year and refugees are to be allowed back to their homes. The big question mark is whether all this can be achieved without violence, without another mass exodus and with respect for the human and civil rights of local Serbs and the many thousand more Serb refugees from elsewhere in Croatia and Bosnia who currently live here.

President Tudjman swears that he is fully behind peaceful re-integration and points to the re-opening of road, rail, pipeline and other links between Croatia and Serbia as evidence of a return to more normal relations between the two former warring states which forms the wider backdrop to the Slavoian re-integration question. But asked whether he will personally go to the area and put his personal authority behind the reconciliation effort backed by General Klein and UNTAES and he retreats into generalities.

The precedents set by five years of war and ethnic purging do not induce confidence however. Thousands of Croats who lost their farms and homes want them back. Parts of the region, especially the fertile Baranja area around Beli Manastir escaped great damage and now have 25,000 more inhabitants than before the war. The "lucky" refugees live in houses from which they will be unceremoniously expelled once their rightful Croat owners are allowed to return. The "unlucky" live in the cellars of bombed out houses or in patched up blocks of flats half destroyed by the bombardment. All face a terrible dilemma – whether to pack up their miserable belongings and move to an uncertain fate as unwelcome refugees in an impoverished Serbia or the Serbian part of Bosnia, or stay and become subject to whatever conditions the returning Croatian authorities impose upon them.

Mr Branimir Glavas is one of the key figures who will determine the outcome. He was a founder of the ruling Croatian Democratic Union (HDZ) and led resistance to the army-backed revolt of the region's Serbs in 1991. Originally from Hercegovina, a stronghold of Croatian nationalism, he is close to President Tudjman and represents him as the Zupan, or governor, based in Osijek, the regional capital of eastern Slavonia.

"The Serbs can remain, provided they respect the constitution, obey the laws and contribute to building up the new state like any other citizen. Those who can't had better pack up their things and leave. We will not tolerate a new rebellion," he says. "We'll forgive them, but we won't forget," he adds. To make sure no one forgets he intends to place a big plaque on the main wall of the Zupanija, or governor's palace, on May 10, the anniversary of Croatian independence. "The plaque will commemorate the heroic defence of this ancient city, the 100,000 Serb shells which fell on it and the lives of thousands of Croats sacrificed in the struggle for independence," he says.

Asked what impact this gesture will have on the prospects for peace and reconciliation, Mr Glavas, who some see as a possible subject for trial by the war crimes tribunal in The Hague for his role during the 1991 fighting, shrugs as he answers. "No one will harm a hair on their heads. But let them be humiliated for a while, and let their children learn of their mistakes," he says.

But not all think like Mr Glavas. Last autumn Osijek, and many other Croatian towns, including the capital Zagreb, rejected the HDZ mayoral candidates in local elections and voted for opposition candidates. "There is a big division between town and countryside. In Osijek we elected a liberal mayor, but the countryside voted solidly for the HDZ, partly because the Zupan paid close attention to the rural areas and built schools and hospitals in previously neglected areas," says Mr Dario Topic, editor of Glas Slavonije,the local paper.

"Now that the war is over people just want to get back to their homes and farms. This puts tremendous pressure on the politicians," he added.

There are also big differences in outlook between the older and younger generations. "The young want their compact discs and their computers and want to be plugged into a normal, modern life. This has always been an ethnically and culturally mixed area. The young want Osijek to enter Europe as a multi-ethnic community. The HDZ wants to take us into Europe as we are now," a young reporter added.

But across the heavily guarded dividing line his Serb counterpart in the local Vukovar radio station expects that he and his family and most other Serbs will leave when the time comes. "I'll stay uptil the last minute. But I don't want to accept their documents. I'm sure that in the end I, too, will leave," he concludes sadly.

PROFILE **General Jacques Klein**

Fast-talking US general

General Jacques Klein, a fast-talking, avuncular man who exudes tough-minded goodwill and offers many practical suggestions for improving intra-community relations, seems an inspired choice to lead the UN team in eastern Slavonia. A political general who spent much of his career in the state department, he commands his mainly Russian, Belgian, Pakistani and Jordanian UN force from a white painted container city built on the site of a former Yugoslav army base amid the ruins of Vukovar.

Gen Klein: his origins are a symbol of his task for the UN *Reuter*

Over the last few months he has managed to gain the respect of most of the main participants on both sides. This is partly a testament to his commitment and drive, but also a reflection of his ability to understand the primeval forces and fears unleashed by this struggle for land and mastery. Surrounded by a close entourage of US security men, Gen Klein in his rumpled suit is clearly an American general commanding a nominally UN operation.

He describes himself as "an Alsatian who speaks with an American accent" as he stems from Alsace, once a similarly bitterly contested strip of land between France and Germany but now a distinctive, multilingual but integral part of France. It has been transformed from *casus belli* to a symbol of the Franco-German reconciliation which forms the bedrock of post-war moves towards European unity. Gen Klein's task is to try and pull off a similar miracle in eastern Slavonia.

"As of January 15 this becomes *de jure* Croatia. It's our task to re-integrate eastern Slavonia peacefully into the Croatian state," he says. "People here suffer from a great sense of malaise, claustrophobia and isolation," he adds. "This is an area plagued by mosquitoes which haven't been sprayed for five years. But when I convened a meeting of both sides, the main sticking point was the registration of the planes which would spray on both sides of the border," he recalls.

He draws some comfort from the fact that the Serbs are starting to discuss concrete detailed issues and not just generalised fears. "I called a meeting of 20 local mayors. Their big concern was whether the Croatian authorities would recognise the local school certificates." But school certificates pale in significance beside the fundamental issues of security and policing, of justice and the courts and whether pension and other payments will be honoured once Zagreb re-imposes its authority. "The Croats have agreed that 40 per cent of civil servants will be Serbs. We have also drawn up a roster with 12,000 names and addresses of people eligible for a kuna pension and we are taking a list of 1,071 Serb policemen to Zagreb. There they'll be vetted and those who pass will become the transition police," he says.

"The international community is here and watching. I tell people we're here to protect your life, wealth and dignity. I don't know how many will stay. But I notice that the peasants have planted their fields, and peasants aren't stupid. They don't sow if they don't expect to reap."

Anthony Robinson and Laura Silber

■ **Infrastructure:** by Gavin Gray

War damage costs

Zagreb's task also involves catching up with the effects of 50 years of socialist neglect

The task of building new infrastructure and repairing damage sustained during the war in 1991 is one of Croatia's top priorities for the rest of the decade. With defence expenditure on the decline, the government will lift spending on reconstruction to \$300m this year and \$500m in 1997. But it will be a long haul. "Reconstruction will take at least 10 years," says Mr Jure Radic, deputy prime minister with responsibility for this area.

According to government estimates, Croatia sustained \$27.1bn of direct damage during the war. Some 135,000 homes and apartments were destroyed along with more than 100 bridges and 200 churches. Large factories were bombed, including the iron and steel works in Sisak and the Djuro Djakovic engineering plant in Slavonski Brod.

One third of Croatian territory was held by rebel Serbs, who laid mines on part of this land, preventing the resumption of farming even today. But the true cost of the war was much higher if lost industrial production and revenues from tourism are taken into account. Mr Radic claims it was more than \$50bn.

The government is half way through a house building programme and 50,000 homes should be repaired or built from scratch by the end of 1997. At the height of the war, Croatia had 650,000 refugees and displaced people, many of whom were housed in tourist centres. "Fifty thousand refugees are still in hotels, but most of them should be rehoused this year," says Mr Radic.

But Zagreb's task also involves catching up with the effects of 50 years of neglect during socialism, a time when resources where diverted to Yugoslavia's southern republics. The road network is particularly poor. A motorway runs east from Zagreb towards Belgrade and a second short stretch to the western town of Karlovac, but most Croatian cities are connected by winding, single-lane roads.

The government plans to build 2,000km of new motorways and fast roads and hopes to attract commercial finance for this. Last year, it awarded a concession to French developer Bouygues to build and operate a toll road in the Istrian peninsular and a second tender has been launched for a concession to construct a motorway running along the Dalmatian coast.

The most controversial project is the planned motorway between Zagreb and Split, the second city, a project that was first envisaged in 1971. The government's plan to run the motorway through Bihac, in Bosnia, and the Croatian town of Knin has come under fierce criticism at home. Croatian nationalists would like the route to extend further into the predominantly Croat region of Hercegovina, while the opposition says the motorway should be built only on Croatian soil.

The fourth new motorway under discussion, an extension of the Zagreb-Karlovac route westwards to the port of Rijeka, is particularly important for the country's shipping and transport industries.

Rijeka was Yugoslavia's largest port, servicing 6.5m tonnes of freight in 1989, but has suffered from competition with the nearby Slovenian port of Koper, which has better road links. Last year, only 3.3m tonnes of freight went through Rijeka, although Mr Bojan Hlaca, deputy director of the port, believes newly introduced legislation to privatise port services will help lift efficiency.

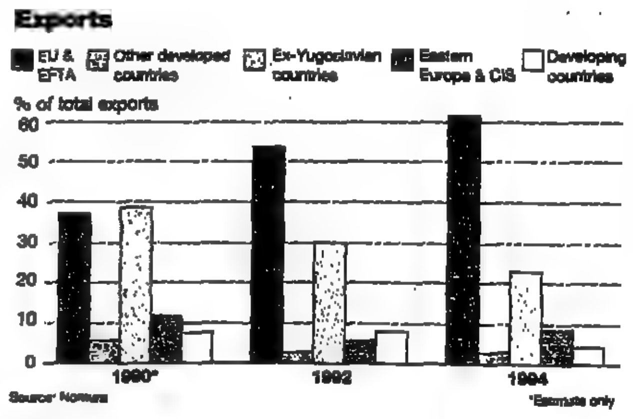
Rijeka's greatest asset is its deep water facility in Bakar, which can take vessels of up to 170,000 tonnes. The port's development plans include opening new container facilities in the western port and opening a free zone and refrigerated warehouses at Bakar.

At Omisalj, near Rijeka, is a terminal for the Adriatic oil pipeline (JANAF) which runs east to Sisak and has connections to Slovenia, Hungary, Slovakia and Serbia. Built in the late 1970s, the pipeline's annual throughput capacity is 20m tonnes, with a maximum structural capacity of 34m tonnes. JANAF ceased operating during the war because part of its length fell into rebel Serb hands, but Croatia took control of this in August and the link with Serbia re-opened early this month. Some 1.5m tonnes of crude have been shipped so far and a total of 5m tonnes is expected by the end of the year.

Although the state will play an important role in the development of JANAF and Croatia's overall rebuilding programme, Mr Radic believes the private sector will also be crucial. HBOR, a state development bank, has been set up to channel credits to entrepreneurs – often at subsidised rates – and Mr Radic expects it to disburse \$100m this year.

The bank will play a key role in one of the most crucial parts of the restructuring programme: persuading Croats to move to the formerly Serb-held areas, where the infrastructure is poor and thousands of houses were destroyed by the Croatian army.

Exports



■ **Pliva:** by Anthony Robinson

Model for central Europe

Its competitive strength as a drug company lies in a strong tradition of R&D and training

Pliva: the first east European industrial company to be quoted on the London stock exchange

Croatia's leading politicians bend over backwards to deny the Balkan identity of their country, while cheerfully engaging in the kind of political intrigues which have made Balkan politics a byword for devious complexity.

But a handful of sophisticated managers and bankers have managed to introduce "western" standards of transparency and efficiency into this hitherto unpromising environment and have emerged as role models for the prosperous central European future which many Croats expect from independence.

The main icon of this shining future is Pliva, the Zagreb-based pharmaceutical company which in April 1996 became the first east European industrial company to be quoted on the London stock exchange. This followed the successful sale of 31 per cent of the company's shares by the government and the issuance of Global Depositary Receipts (GDRs) as part of a complex financial operation which has transformed the formerly 84 per cent government-owned company into a publicly quoted and mainly privately-owned one.

The two key participants in an operation facilitated by Union Bank of Switzerland (UBS) and the European Bank for Reconstruction and Development (EBRD) were Mr Zeljko Covic, the 43-year-old president of the Pliva management board and Mr Franjo Lukovic, the immensely tall and thoughtful president of the management board of Zagrebacka Banka. Zagrebacka is both the company's principal banker and owner of nearly ten per cent of Pliva's shares. (The EBRD holds a further 11 per cent.)

For Mr Covic the secret of Pliva's pre-eminence in Croatia and its ability to compete against its central European and multinational drug company competitors lies in its strong tradition of research and development and its commitment to training and education. Current research is focused on five main long-term projects and 40 promising science students have been recruited at Croatian universities and encouraged to specialise in areas of interest to the company.

The most profitable fruit of this investment in human resources was the discovery and patenting in 1982 of a powerful new antibiotic called Azithromycin. It is now widely used for treating respiratory and some sexually transmitted diseases.

In 1986, Pliva made a licence agreement with Pfizer under which the US pharmaceutical company markets the drug in the US, west European and some other markets under the brand name Zithromax.

Global sales from Azithromycin alone are expected to reach $1bn by 1998 from $400m in 1995. Income from the licence agreement and bulk sales of the drug to Pfizer lies at the heart of Pliva's strong cash flow. But over the last thirty years, the Zagreb-based company has also built up a strong working relationship with 19 other western pharmaceutical companies whose products it makes under licence for sale domestically and throughout the former Soviet bloc where Pliva has a network of sales outlets and connections.

The company also sells bulk chemicals to west European markets and makes animal health products, agrochemicals, cosmetics and some baby foods and other processed foodstuffs.

Last year exports accounted for 42 per cent of the company's $365m sales, while total income was boosted by a further $34m in royalty payments. Future export growth is expected mainly from markets in the former Comecon area and China.

To keep up with rapid growth in sales of its own drugs and those produced under licence from western companies Pliva is currently investing Ecu95m in a new plant near Zagreb to produce Azithromycin which Pliva markets throughout east and central Europe as Sumamed. The new plant has been partially financed by an Ecu48m loan from the EBRD.

Pliva's strong cash flow and access to foreign banks and capital markets makes it virtually unique in a country where bank interest rates of 25-30 per cent make borrowing and investment prohibitively expensive for most Croatian companies.

"Now foreign banks are lining up to offer finance. Two years ago, it was a very different story however," Mr Covic recalls. "But we expect to be able to finance most of our development over the next five years from cash flow and our own internal capital resources," he adds.

In a general business environment tainted with political cronyism and war-related racketeering, Pliva's financial independence and strong international links demand an ethical approach to business which percolates through to its suppliers and would-be imitators.

"We've had no scandals, we make good products, insist on ethical advertising and bring a little international culture to the domestic scene," Mr Covic says.

As for management style, "I make sure that everyone says his piece during brainstorming sessions. But once we've reached a decision that is it. We Croatians like to discuss everything a hundred times. But in this company there is no democracy in implementation. Speedy reactions and rapid decisions are essential to keep ahead of the competition," he adds.

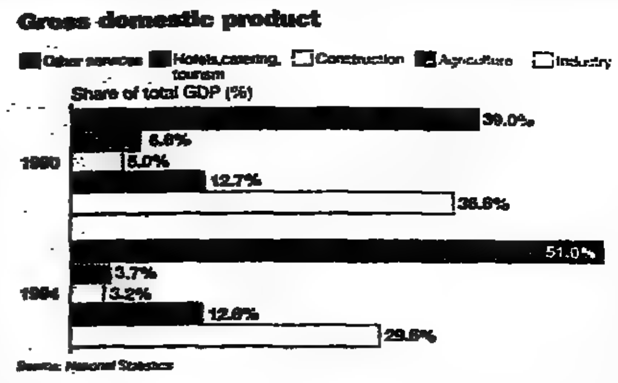
It was not always like this. "In the 1980s, Pliva slept a little, while competitors such as Krka in Slovenia and Gedeon Richter in Hungary built up their markets and improved their products," he concedes. "But we still have an edge in this region because we are the only company which produces its own chemicals and has such valuable patents. Azithromycin is a blockbuster product which gives us a very strong negotiating position with our wholesalers," he adds.

As a private company under a highly paid but dedicated management team Pliva, which currently employs 5,500 people and runs 12 plants, has gained a new flexibility. "We will be shedding some jobs and closing down some plants. But we will also be building new facilities and creating new skilled jobs," he says. "Our shareholders will back us if we show them that we know where we are going. We not only create wealth. We also provide opportunities for the young who might otherwise join the brain drain which is one of the most serious problems facing the country."

■ **Banking:** by Anthony Robinson

A debt-ridden inheritance

The system's main characteristic is the high proportion of non-performing assets



High interest rates, rising inter-enterprise indebtedness and the still largely unresolved bad debt problem of some of the country's largest and oldest banks reflect the negative financial legacy of Croatia's socialist past and the breakup of Yugoslavia.

Tackling the inherited problems caused by the incestuous nature of the former links between the socialist banks and the enterprises which both owned and borrowed from them is now widely recognised as a pre-condition for future economic development.

Much has already been achieved. A two-tier banking system has been in effect since 1991 when the National Bank of Croatia was reconstituted as an independent central bank. The new currency, the kuna, introduced in 1994, has appreciated strongly in recent months in response to what many regard as an over-restrictive monetary policy.

But the main characteristic of the banking system remains the very high proportion of non-performing assets which amounted to just over 75 per cent of total assets at the end of 1995 when added to the high level of obligatory reserves demanded by the central bank.

The bulk of non-performing assets are held by the five largest, former "socially-owned" banks of which Privredna Banka Zagreb is the most chronically afflicted. All borrowed abroad heavily in the 1970s to finance a series of big industrial projects which failed to generate the profits required to service the debt.

But PBZ, which financed the construction of refineries, petrochemical and fertiliser plants and the Adria pipeline which runs from the island of Krk near Rijeka to Slovenia, Hungary, the Czech republic and Serbia, has been left with the worst legacy of non-performing loans and inefficient, cash-hungry client enterprises.

Privredna is almost certainly too big to close down. But its

> The commercial banking sector is at present over-crowded

future as a leaner and more commercial institution will depend on the degree to which the loss-making enterprises on its books can be restructured, slimmed down and given new management.

Rijecka Banka, saddled with the accumulated losses of the shipbuilding and other sectors, is in a similar position but is one of two regional banks which are also being restructured and re-capitalised. The other is Splitska Banka, the regional bank.

But the commercial banking sector is over-crowded and many of the 57 existing banks are small, under-capitalised and unlikely to survive as independent units when the current exceptionally high spreads are reduced and competition from the better domestic banks and foreign banks increases.

At present Raiffeisenbank (RZB) Austria is the only foreign-owned bank, but several others are preparing to enter the market.

The prospect of increasing competition has also been a spur for some of the formerly "socially-owned" banks. The bank recognised by foreign bankers as having made most progress is Zagrebacka Banka under the chairmanship of Mr Franjo Lukovic. "The essence of the old system was that the enterprises cheated the banks and the banks cheated depositors. But in 1991 we introduced an inflation-protection clause in our loan agreements and demanded more collateral. Since then we've stopped losing money," he says.

The bank received DM300m of government-backed restructuring bonds two years ago. "This helped to solve most of our non-collectible debt problem, including the DM100m we were owed by Rade Koncar and other companies hit by the wave of bankruptcies in 1990-1991," he adds. "But the bulk of the problem we solved ourselves by selling non-collectibles at a discount, selling assets, re-scheduling some loans and setting up a separate work-out department."

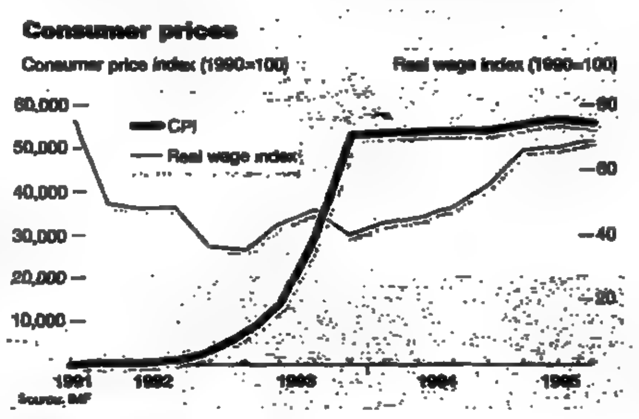
The structure of the bank has also changed dramatically. "We now have a new supervisory board on which no bad debtor is represented. The privatisation of many of our shareholding companies and the sale of bank shares received from debt/equity swaps means we are increasingly privately owned," he adds.

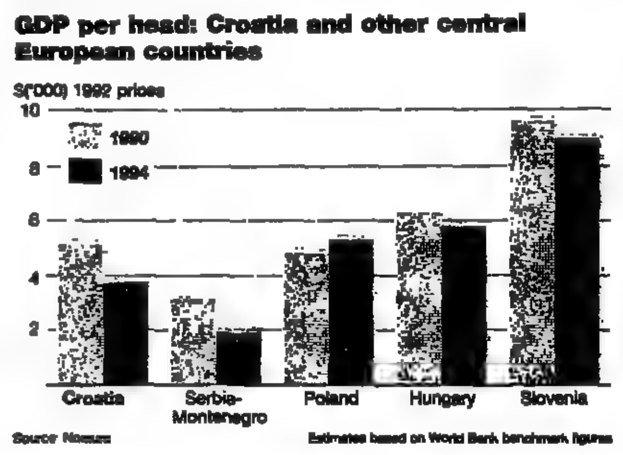
Last year ZB, the main domestic banker for Pliva, Croatia's most successful company, received an Ecu3.2m loan from the EBRD to buy new computers and IT equipment and an Ecu27m loan for on-lending to small enterprises and individuals. But talks with the EBRD on an equity investment came to nothing.

"The EBRD wanted too big a stake. We are not looking for a strategic investor, instead we intend to sell 10 per cent of our shares to foreign financial investors. This will pave the way for a future capital increase through an equity issue."

At present ZB has a comfortable capital adequacy ratio of 11 per cent, but that is partly a reflection of high interest rates which choke off demand for credit. "We are forced to impose interest rates of between 15-23 per cent. That is simply too high for any normal business." But the high interest rates and high spreads between deposit and lending rates, which allow many of the smaller, under-capitalised and inexperienced private banks a precarious survival, offer high profit margins to efficient foreign banks not weighed down by inherited unperforming debt.

The prospect of wide spreads encouraged Raiffeisen to become the first foreign-owned bank to enter the market, a decision taken before last year's Dayton agreements sharply reduced the country risk.





PROFILE **Varteks**

Supporting role

The provincial town of Varazdin, 60km north-east of Zagreb near the Hungarian border, lies in the centre of a region long neglected under socialism. For strategic reasons, Tito shifted heavy industry to the interior of Yugoslavia forcing much of Varazdin's 45,000 population to travel abroad for work.

Many have since returned to set up their own companies and the town now enjoys higher living standards than the Croatian average – a feat that locals proudly attribute to their capacity for sheer hard graft. But Varazdin's future prosperity also depend on Varteks, the local textiles factory, which remains the city's largest employer despite its financial difficulties.

A true corporate behemoth, Varteks also lends its name to the local football club. In the 1980s the company had 10,000 employees and a chain of 180 shops throughout Yugoslavia.

The break-up of Yugoslavia, however, caused the loss of core markets and last year's sales of DM170m are 40 per cent down on pre-war levels. The company still has 13 shops in neighbouring Slovenia and 17 in Macedonia, but its 30 outlets in Bosnia are no longer operating and the outcome in Serbia was even worse. "On March 15 1991, the Serbs simply declared that our shops there were no longer our property. We lost DM40-DM50m and have not been compensated," says Mr Andjelko Herjavec, general manager.

Varteks' product range includes men's suits and trousers and women's garments. It also produces jeans under a licensing agreement with Levis signed in the 1980s that gave it the exclusive right to produce and sell throughout Yugoslavia. Varteks at one point produced 450,000 pairs of jeans a year and became one of Yugoslavia's most successful companies. Now its exclusive licence is restricted to Slovenia and Croatia, while last year it exported 18,000 pairs of jeans and 5,000 jackets to Levis in Belgium for sale elsewhere in Europe.

Varteks exported goods worth DM70m last year. The UK, where it sold clothing worth £8m, is its largest market for goods sold under its own name. Smaller quantities are exported to Germany and Italy. But about 70 per cent of exports are cut-make-trim (CMT) contracts where Varteks undertakes part of the production process as a sub-contractor. This is typical of the Croatian textiles sector, which accounts for 14 per cent of total exports.

CMT is a precarious business. Many Croatian companies had their contracts cancelled in May, after the Croatian army's successful operation to re-take western Slavonia, because western contractors feared another outbreak of full-scale fighting. They are also competing with other east European producers, whose labour costs are substantially lower.

The sharp appreciation of the Croatian kuna in 1994 and 1995 has put even more pressure on margins. Mr Herjavec now hopes to scale down CMT business and sell more goods under the company's own name. "We are re-organising the company to try and sell products and not production," he says.

This will require new investment and, inevitably, further job cuts to a workforce that Mr Herjavec has already reduced from 6,200 to 4,900 over the past 18 months.

Gavin Gray

PROFILE **Raiffeisenbank**

Lured into the market

The aim is to help clients by exploiting its existing network in eastern Europe

For the moment, Raiffeisenbank Austria (RZB) is the only foreign-owned bank. High interest rates and high spreads between deposit and lending rates offer high profit margins to efficient foreign banks and these prospects encouraged RZB to enter the market, a decision taken before last year's Dayton agreements.

"RZB took the strategic decision to go east in 1988, we started in Hungary, then moved on to Slovakia and Poland and soon established a strong presence in all of them. But we were number 22 entering the Czech republic. That was a mistake. But we learnt that the best strategy is to move in first. That is what he have done in Croatia," says Mr Boris Zenic who runs the bank from its purpose-built Zagreb headquarters.

Like other senior staff Mr Zenic is a returned expatriate who learnt his banking in London and other financial centres.

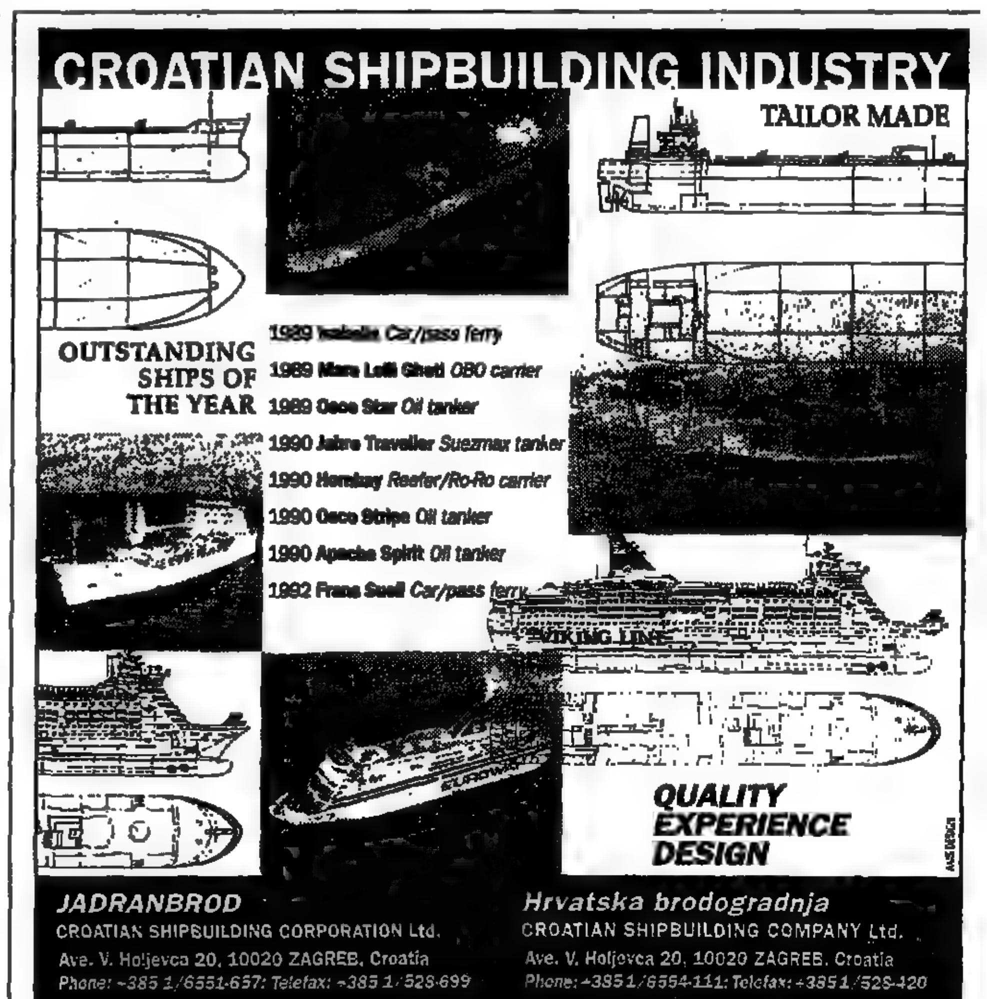
"Our aim is to be a significant player in this market and use our network in the region to serve our clients. We are well placed to serve both multinationals and local exporting companies and our large Austrian and foreign clientele," he says. But with margins on business with foreign companies shaved wafer thin by competition in the international banking market the real opportunities lie in the high margin domestic market.

"Our main aim is to support domestic players and try to identify budding local blue chip companies. They cannot afford the 25-30 per cent interest charged by local banks but we can get them cheaper credit lines by borrowing abroad," Mr Zenic says.

As the first foreign bank in a country where trust in domestic banks is low and an estimated DM6.5bn is held in accounts with foreign banks in neighbouring Austria and elsewhere, RZB is virtually besieged by local depositors seeking to open accounts.

"We only accept the larger deposits and try to encourage depositors to hold their accounts in kuna. That way we obtain funds which we can on-lend to Croatian customers. Unfortunately most decide to open foreign currency accounts, half of which we have to re-deposit with foreign banks on the orders of the central bank. That increases costs and reduces the availability of funds for investment in the Croatian economy," Mr Zenic concludes. It is an oft-heard lament in this country.

Anthony Robinson



■ **Foreign Investment** by Gavin Gray

Steps towards acceptance

Much of the future foreign investment is likely to come from portfolio investors

For five years, very few western investors even thought about investing in Croatia. This year the country has moved several steps closer to being accepted like the rest of eastern Europe as a safe place for direct and portfolio investment.

The big breakthrough came in March with the completion of a $160m share issue for Pliva, Croatia's largest pharmaceutical group, which attracted considerable interest from abroad and was nearly 20 times oversubscribed.

The results of the Pliva offering have been watched just as eagerly at home by other large enterprises. Several of them now believe that this type of deal represents the best way out of the aftermath of a privatisation scheme that has left them in limbo.

Pliva was one of 3,500 companies that were sold under Croatia's 1991 privatisation law. The law granted workers and their families a pre-emptive right to buy 50 per cent of the stock of the company they worked for. Each worker could buy stock up to a nominal value of DM20,000, although the purchase price was set at a discount of 20 per cent plus a further 1 per cent discount for every year of employment and they could pay in instalments over five years. The remaining 50 per cent of shares were sold by tender. Any stock left over was transferred to the Croatian Privatisation Fund (CPF), a government body, and two state-controlled pension funds.

Most large companies ended up with unwieldy capital structures. In Pliva's case, the CPF owned 62 per cent of the shares immediately before the international share issue, the pension funds had 20 per cent and employees the remaining 18 per cent.

Although in theory privatised in 1993, majority state ownership meant that Pliva was still subject to wage controls and management's decision making powers were constrained. This factor also ruled out finance from the European Bank for Reconstruction and Development (EBRD), the only foreign lender that was interested in Croatia in 1994 when Pliva's management was drawing up plans for a $300m investment programme.

"I see many opportunities after privatisation," says Mr Zeljko Covic, Pliva's president. "We are now in a position for restructuring and we will have more freedom than we had in the past. We clearly have to close some very old facilities and we are going to reduce the number of employees."

Like most of manufacturing industry in Croatia, Pliva operated before privatisation as a socially-owned company; it was not explicitly state-owned and the workers enjoyed considerable leeway in day-to-day operations.

The 1991 privatisation law was restricted to this part of the economy, while the state sector has hitherto been untouched. This includes utilities such as telecommunications, electric power and INA, the national oil company. Other companies have fallen under state control through the back door.

The state-controlled Privredna Banka, the country's largest bank, has amassed a substantial share portfolio through debt-for-equity swaps and purchases in the secondary market. In the privatisation programme itself, the CPF built up a portfolio of DM7bn. Put together, this gives Croatia the dubious honour of being probably the only country to run a privatisation programme that has brought about an increase in state ownership!

By the end of 1995, the CPF's portfolio had been whittled down to DM6bn. Of the 2,500 companies that entered privatisation, 1,145 companies, mostly small- and medium-sized concerns, had been completely privatised. A further 1,142 companies are majority private owned while the CPF retains a majority stake in about 200 companies. This last group includes some of the country's most troubled companies.

By 1994, most companies had completed their worker buy-outs and the focus of privatisation shifted to the CPF's burgeoning portfolio. Despite the high political risk, the fund sold some shares to foreign investors. The largest single deal was the sale in 1995 of a 49 per cent stake in Nikola Tesla, a telecommunication equipment producer. This was bought by Ericsson of Sweden for DM70m. The country's three largest brewers also fell into foreign hands.

But most companies have felt frustrated after privatisation. The scheme itself brought in no fresh capital and with their stock trading at low levels on the secondary market it has been impossible for them to raise new funds at an attractive price. Moreover, the post-privatisation shareholder structure militates against a sharp increase in strategic investment since it would be difficult for a foreigner to acquire a majority stake.

In the wake of Pliva's successful flotation, it seems that much of the future foreign investment will come from portfolio investors. "Pliva has demonstrated that you can find excellent companies in an immature market. But it will stand apart from other privatisations because it is basically valued through its international operations, such as its contract with Pfizer and exports," says Mr Milivoj Goldstajn, international director at Zagrebacka Banka. "It will be followed by other companies with good products, strong management and a good position on the domestic market."

With a higher component of Croatian risk, such deals will inevitably be harder to arrange. But directors of companies, whose stock trades at 20 per cent of book value, believe that a sale to foreign portfolio investors is the best way to ensure their stock is fairly valued. The EBRD has begun talks with Podravka, a food processor in the eastern city of Koprivnica, which could mimic the Pliva deal.

Kras, a chocolate producer, is also in talks with the bank about a loan deal, which could be followed by an equity increase. The CPF owns 30 per cent of Kras' stock and management would like these shares to be sold either to portfolio investors or to employees through a buy-out. Management fears a foreign takeover would dilute the company's culture and they would like to retain control.

This sale will be possible under a new privatisation law passed in March, which opened the way for the privatisation of utilities. The law also extended the instalment period for worker shareholders to 20 years, while the large number of workers who have defaulted on their instalments will henceforth have their shares confiscated, adding to the CPF's already substantial portfolio.

Perhaps the most imaginative part of the new privatisation law is plans for the country's first voucher scheme. Some DM3bn of assets, representing about half the CPF's existing portfolio will be given away to 300,000 victims of the 1991 war. Refugees will receive vouchers worth about DM7,000 if they return to their homes and other victims will receive vouchers worth DM5,000 to DM30,000 depending on their circumstances. The scheme is due to be launched in September and government officials hope it will speed up the development of the capital markets.

A basic stock market

Some 600,000 Croats became shareholders through the privatisation scheme, but the government has systematically ignored the capital markets. It was not until January – three years after most companies had been privatised – that parliament passed the most rudimentary capital markets regulations.

Share registers are still run by the companies themselves, hampering secondary market trading and creating ideal conditions for fraud. A stock exchange opened in 1992 and has a modern trading system, but turnover was no more than DM66m ($46m) last year. A mere four companies are listed and only another 50 are traded over the counter.

With the Zagreb stock exchange neglected, two over – the – counter markets have sprung up in regional cities of Varazdin and Osijek and have attained a higher profile. The turnover there is low, but their prices reflect the subdued state of the Croatian economy. Most companies trade at less than 20 per cent of nominal value. This has fuelled bitterness among worker shareholders, many of whom originally believed that their shares were worth face value.

Even the shares of Pliva, one of Croatia's most profitable companies, traded at about 50 per cent of nominal value before its equity offering was announced. The shares were eventually sold at 5,100 kunas, a 40 per cent premium, and traded up to 9,000 kunas on the London stock exchange. Many other companies have come to the conclusion that it is only by issuing stock internationally that they shares will be fairly valued.

Gavin Gray

Saved from going under

Croatia's hard-pressed shipbuilding industry received a welcome shot in the arm last year when the European Bank for Reconstruction and Development (EBRD) arranged a $225m syndicated loan for Russia's largest tanker operator, Novorossiysk Shipping.

The funds are being used to finance the construction of eleven 40,000dwt product tankers in Croatian yards. Two years ago an Iranian owner ordered eight 22,000dwt vessels worth around $220m – although payment was not in cash but in oil through a barter deal.

Such contracts, and a trickle of orders from Croatian owners, have helped to keep the shipyards going, but only just. When the International Monetary Fund asked the government to draw up a list of the biggest loss makers two years ago, four of the country's five shipyards figured prominently.

The yards have lost money for years. They were kept going under the old system mainly to provide jobs in the coastal port cities which otherwise are mainly dependent on harbour-related activities and support for tourism. But since 1990, when the yards employed over 29,000 people, the workforce has shrunk by more than half and is still contracting as the yards engage in painful restructuring.

The 3 Maj shipyard at Rijeka is a typical example. Six years ago it employed 7,000 workers. It is now down to 2,900 and a further 600 will go later this year. Financing has been a particular problem, especially during the war when no one wanted to pre-finance ship construction.

But the shipyard racked up losses of $200m in 1990 alone and is saddled with a level of debt which only the government can write off.

Meanwhile the Croatian yards have to face competition from other former socialist countries such as Poland whose restructured Sczecin yard is now one of the most productive in Europe and makes profits without any subsidy.

Mr Vladimir Brusic, the new manager of the 3 Maj yard, says much has been done to improve productivity. "In 1990 we paid $84m in wages and another $22m to suppliers and produced four ships. This year we'll turn out the same number of ships with a reduced labour force and a total wages bill of $25m," he says. "The government says it wants the shipyards to survive and has launched a salvation programme for the five yards – Uljanik at Pula in the north, Brodosplit and Trogir in the south and 3 Maj and the small Kraljevica yard in Rijeka," he adds.

Under the salvation plan the government will write off inherited debts but the slimmed down and restructured yards will be expected to survive without further subsidies in future.

Meanwhile the privatised Viktor Lenac repair yard at Rijeka provides a glimpse of what can be done with good management and restructuring. The yard is now reported to be profitable with a healthy throughput of ships into its floating dry docks. Tankerska Plovdiva, the Zadar-based shipping company, also managed to remain profitable throughout the war by leasing its ships on charter to foreign oil companies.

Anthony Robinson

The 3 Maj (May) shipyard at Rijeka: lost jobs and money *Anthony Robinson*

Dubrovnik: view out to sea over the 13th century city, jewel of the Dalmatian coast. The roof tiles (right) were damaged by artillery fire *Anthony Robinson*

■ **Tourism:** by Laura Silber

Oh what a lovely backdrop

Croatia has now to persuade the world that the war is over and that it is again safe for holidays

Few wars have been fought against such a stunning scenic backdrop as the war of the Yugoslav succession. And seldom has the gratuitous vandalism of war been more graphically demonstrated than in the Serb bombardment by land and sea of the former Venetian stronghold and port city of Dubrovnik.

The stunning walled city stands in the lee of high mountains and protected by islands towards the the southern tip of independent Croatia's 1,778 km-long Adriatic coastline.

The good news is that the fighting is over, the heavy artillery has been withdrawn under Nato supervision and peace has returned to the Dalmatian coast and to the baroque cities of the interior.

Only eastern Slavonia is still full of men with guns, and that is in the process of peaceful re-integration.

In Dubrovnik itself, one has to look hard for evidence of the recent violent past – the tell-tale star-shaped scars of shell bursts in the glistening marble of the main street, shrapnel holes in walls – and above all, the rash of raw red tile new roofs to replace the delicate multi-coloured and weather-beaten roofs destroyed by shell-fire.

With the despatch of a 60,000-strong Nato-led force to keep the peace in neighbouring Bosnia, Croatia now has the chance to rebuild its economy.

The need now is to persuade the outside world that the war is over and that from the northern tip of Istria, to the 1,000 and more sun-soaked islands to Dubrovnik in the south, Croatia is once again a safe holiday destination.

Attracting tourists back to Croatia is a high priority for economic policymakers. Mr Niko Bulic, the minister of tourism, expects receipts from tourism, including hotels and transport, to reach $1.8bn in 1996, about seven per cent of GNP and roughly the same as receipts in 1990, the last good season on the eve of the war. "That was when tourists came to Croatia but thought it was Yugoslavia," he adds.

Tourism was former Yugoslavia's biggest hard currency earner officially amounting to seven per cent of GDP, but in fact its contribution was nearly double that when private transactions were taken into account. The bulk of the earnings came from Croatia.

Croatia used to be included in foreign package tours, often combined with Italy or Austria. British tour operators, for example, used to book hotels in Dubrovnik as a stopover on a cruise from Venice. British tourists, were the biggest single group of foreign holiday makers in 1990, after Germany and Italy.

Czechs, Germans, and Austrians are now the main visitors. The British have been slower to return. In part, this is due to concern over the safety of airports which used to be targetted by the Serbs.

Dubrovnik, which used to serve over a million passengers a year, was bombarded during the war. A more general concern is that the coastal airports such as Dubrovnik lie in the narrow coastal strip hemmed in by high mountains. In an effort to lure back British tour operators Croatia is now willing to subsidise charter flights. "If they are worried, they do not have to use Dubrovnik and Split, charters can use Pula in northern Istria," the minister says.

Tourism rebounded first in Istria and Kvarner bay in the northern Adriatic which were not affected by the war. There tourist levels have almost reached those of 1990.

But around the Croatian port of Split, home to the magnificent Diocletian palace built by the Roman emperor in the fourth century, and the surrounding islands, tourist levels are less than two-thirds those of 1990 and in the south near Dubrovnik tourism will at best reach 40 per cent of the earlier levels.

In 1990, foreign holiday makers accounted for 59 per cent of all arrivals and industry officials are having to re-think their approach to tourism in an attempt to get them back.

A slew of problems have to be addressed. Many hotels, especially on the southern coast, are in need of refurbishment because they became the temporary home to Croatia's refugees. The strength of the kuna, the national currency, also makes the country rather expensive. A simple fish dinner for two in Dubrovnik complete with the full-flavoured local wine, can cost $65. A night in the Argentina, once one of the finest hotels in Dubrovnik but now somewhat run down, costs around $180 for a double room.

Much as officials insist that Croatia has more in common with central Europe than with their former countrymen, many of its waiters and tourist personnel still have much to learn about the virtues of service. A communist mentality still persists. Waiters, particularly in large hotels, often still believe they are doing you a favour.

Mr Bulic says Croatia is now working to give better value for foreign tourists and secure its place among Mediterranean countries such as Greece, Spain, Portugal and even Italy. "We must balance the need for tourism with the need for a strong currency. We must offer good value to compete," he says adding that tourist officials are now researching prices in competitor countries – from a cup of tea to an overnight stay. "We also need a better balance between the number of visitors and the quality of service," he admits. "We now offer 600,000 beds, substantially fewer than before the war. We are a country of just over 4m people. We cannot cater to ten million visitors a year. We would be happy with 7-8 million," says Mr Bulic.

In Croatia's favour is one of the most beautiful coastlines in the world and enormous regional variations. The Istrian town of Pula, whose trademark amphitheatre was built in the second century, is a masterpiece of graceful architecture. Brioni, the islands where Tito, the founder of communist Yugoslavia used to summer with hand-picked members of the elite, is now the holiday spot of choice for President Tudjman. Since the collapse of communism it is also open for tourists. It still boasts a zoo, full of animals donated by leaders of developing countries.

Coastal towns, many still representative of the period when the entire region was under Venetian rule, have fine beaches with quaint centres which offer a warren of restaurants. The islands of Hvar and Korcula, whose old towns of perfect Venetian proportion, provide a fine mix of comfort and Dalmatian hospitality – excellent local wines and delectable cuisine.

Those visitors wanting to see continental Croatia will not be disappointed by a visit to Plitvice National Park, which has a lake, beautiful waterfalls and lovely grounds for walking. Held by Serb rebels until last August, it is now safe and offers a rich selection of flora and fauna.

Zagreb: monument to a Croatian national hero of the nineteenth century, Duke Josip Jelačić *Anthony Robinson*

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IN BRIEF

France dismisses head of Snecma

The French government dismissed Mr Bernard Dufour as head of the state-owned Snecma aeroengine company yesterday, complaining of his failure to sell non-strategic assets quickly enough and referring to a recent row with General Electric, Snecma's long-term US partner.
Page 16

Belleli creditors clear way for break-up
Creditor banks of Belleli, the Italian engineering contractor, yesterday cleared the way for its eventual break-up and sale by signing up to a financial and industrial restructuring plan.
Page 16

Wella gets to the root of the problem
Wella, the world's largest supplier of professional haircare products, not only suffered a 48 per cent fall in net earnings last year, but it also lost its chief executive and its shares have tumbled more than 40 per cent from their peak last July. The chairman concedes much of the blame must be laid at the company's feet. Page 17

Metrobank shares soar on 66% growth
Shares in Metrobank, the Philippines' largest private-sector bank, soared to a high yesterday after the company said net profits rose 66 per cent in the first four months of 1996. Page 18

Domestic sales drive Mitsubishi Motors
Cost-cutting and higher sales in the domestic market helped Mitsubishi Motors, one of Japan's leading vehicle makers, post record profits on a non-consolidated basis last year. Page 18

Chief of Texas Instruments dies
Mr Jerry Junkins, chairman, president and chief executive of Texas Instruments, died suddenly yesterday aged 58. Page 19

Investment income lifts Canadian bank
Royal Bank of Canada, the country's biggest financial institution, reported a 12 per cent advance in second-quarter earnings thanks to record investment banking income and lower loan-loss provisions. Page 19

Cashmere gives Dawson a rough ride
Dawson International, the Scottish textile group best-known for its Pringles brand, announced a 39 per cent fall in underlying profits last year after steep price rises in cashmere. Page 20

UK retailer may sell DIY chain
WH Smith, the UK retailer, is likely to signal a readiness to sell Do It All, the loss-making DIY chain in which it has a 50 per cent stake, when it presents the results of its strategic review next month. Page 20

Programme sales boost UK media group
Record programme sales of £72m ($109m) helped to push Carlton Communications, the UK broadcasting and media services group, to better-than-expected pre-tax profits of £143.3m for the six months to the end of March. Page 20

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Zanders Feinpp	110	+	10
Falls			
Beiersdorf	1385	–	155
Holzmann	490	–	10
Kali & Salz	241	–	7
Preussag	403.7	–	8.3
NEW YORK ($)			
Rises			
American Stss	37¼	+	2¼
Giant Inds	14⅝	+	1⅝
Falls			
Boise Casc	41⅞	–	2⅝
Gucci	55¼	–	3¼
Oakley Inc	50½	–	2½
Sterling Comm	39¾	–	2⅛
LONDON (Pence)			
Rises			
Blacks Leisure	160	+	17
Kalamazoo Comp	143	+	28
Monarch Res	127	+	17
Silentnight	257	+	28
Yorkshire Wtr	758	+	[illegible]
Falls			
Aspen Comm	233	–	27
TORONTO (C$)			
Rises			
Cognos	32.5	+	2.75
Fulcrum Tech	45	+	3.5
Goyanor Res B	18	+	1
Memotec Comm	5.4	+	1.1
PC Docs	32.3	+	2.05
Falls			
Ibex Tech	7.05	–	1
PARIS (FFr)			
Rises			
Eridania BS CI	800	+	55

Technip	495	+	16.6
Falls			
AGF	141.1	–	4.4
Air Liquide	886	–	21
Gaumont Soc N	379	–	17
Vallourec	240.9	–	8.6
TOKYO (Yen)			
Rises			
Calpis Food	929	+	49
Daikyo Inc	861	+	100
Fuji Spinning	607	+	48
Nihon Nosan	524	+	32
Prima Meat	500	+	38
Falls			
Aoyama Trading	2950	–	160
HONG KONG (HK$)			
Rises			
Grand Oriental	2.375	+	0.225
HK China	2.45	+	0.35
Playmates Toys	2.15	+	0.22
Sung Hung Kai	2.725	+	0.3
Falls			
Esprit Asia	2.475	–	0.15
Keck Seng	2.6	–	0.2
BANGKOK (Baht)			
Rises			
[illegible]	43.5	+	0.75
Crown Seal	68.5	+	6
Thai Magnetic	85.5	+	7
Thai Rayon	150	+	13
Falls			
Hand Thip	60	–	14
Nation Publ	84	–	9

New York and Toronto prices at 12:30.

Air France discusses US alliance

By David Owen in Paris

Air France is in discussions with at least four leading US airlines about a possible transatlantic alliance.

The four are American Airlines – which is discussing what industry sources suggest may be a far-reaching accord with British Airways – United Airlines, Delta Air Lines, and Continental Airlines.

The French state-owned carrier, which is hoping to be privatised in late-1997 or early-1998, aims to have a good idea of which of the four it wants to tie up with by the end of this year.

Disclosure of the talks comes as Air France's position is showing signs of improvement after cumulative losses of FFr15bn ($2.91bn) since 1991.

It recently revealed that it had reduced net losses before restructuring costs to less than FFr1.2bn in 1995-96, excluding Air France Europe, its domestic partner, and hoped to cut this to FFr115m in 1996-97.

Air France Europe remains a problem and is subject to a programme of measures to improve its financial performance.

Air France this month said it would delay a planned restructuring of its domestic and European operations if domestic pilots did not agree to a new remuneration package by the end of next month.

But Mr Christian Blanc, Air France chairman, predicted this month that "if, as we hope, we can rectify the situation of Air France Europe's accounts ... shareholders will be interested in a company that has recovered so spectacularly in such a short time".

Three of the four US airlines with which the group is in discussions have already been linked with European companies.

The US government last week gave anti-trust immunity to Lufthansa of Germany and United Airlines in a move that will enable the two companies to operate more like a single airline.

It also gave tentative approval for Delta, Swissair, Sabena of Belgium and Austrian Airlines to combine their operations. The four carriers operate a number of code-sharing agreements, allowing them to sell seats and put their flight numbers on services operated by their partners.

It has indicated that it would block any alliance between BA and American, however, unless the UK agrees to conclude an "open skies" agreement with the US. BA already has an alliance with USAir, in which it has a 24.6 per cent stake. USAir could also yet emerge as a possible partner for Air France.

The French carrier is also thought to be considering how best to develop its presence in Asia, possibly through some form of link with a Chinese airline. It last year signed the basis of an accord with Japan Airlines.

American Airlines and Canadian Airlines given 'tentative' anti-trust immunity, Page 19

Accounting changes help JAL return to profit

By Gerard Baker in Tokyo

Japan Airlines, the country's largest carrier, yesterday reported its first operating profit since 1991. The company attributed the improvement in the 12 months to March to its extensive restructuring and strong demand in growing Asian markets. But a change in its method of accounting for depreciation also improved JAL's results.

Operating profit for the year was Y15.4bn ($143m), compared with the previous year's loss of Y9.9bn. Recurring profit – before extraordinary items and tax – jumped 56 per cent to Y4.4bn. Net profit was Y500m, following last year's loss of Y1.3bn.

JAL said that as a result of new investments made in the last few years the company had decided to change its method of depreciation accounting. In the past such investments would have been written off on a heavily front-loaded, declining balance, basis. As from this year they would be accounted for by the straight line method. The effect was to increase recurring profit compared with last year by Y10.9bn.

Although the move suggested the company would have recorded a large recurring loss for the year under the old principles, JAL said the change was a fairer reflection of the costs and benefits of the big outlays on new airports and other facilities recently made by JAL.

Total sales rose almost 8 per cent to Y1,116bn. International passenger traffic rose more than 13 per cent, helped by the strong yen, which increased Japanese demand for overseas travel, and by a recovery in business traffic. New routes and special excursion fares had also contributed to passenger growth, especially within the Asia-Pacific region.

New routes and a more competitive fare structure produced an increase in volumes in the domestic market, in spite of the continuing weakness of the Japanese economy. Domestic passenger traffic and domestic cargo volumes both registered increases of nearly 6 per cent.

JAL said its long-term restructuring, which aims to cut staff numbers by 5,000 in the five years to 1998, remained on course. This year JAL expects domestic demand to remain sluggish, offset by continued growth in international traffic. Sales are forecast to rise 4.5 per cent to Y1,167bn, with recurring profit up slightly at Y5bn.

Cost-cutting and increased capacity on international routes through co-operation agreements helped boost full-year net profits at Malaysia Airlines 67.3 per cent to M$233m. Page 18

Big insurance brokers may look to join forces, writes **Ralph Atkins**

Consolidation looms to combat a sector's angst

Is merger and takeover activity about to hit the world's big commercial insurance brokers?

The sector is suffering collective angst: a feeling that something dramatic is needed to galvanise otherwise-lacklustre prospects.

Mr Sax Riley, chief executive, of UK-based Sedgwick, has warned that out of the "big six" insurance brokers, the "cake can only accommodate three or four". Mr Frank Zarb, chairman of New York-based Alexander & Alexander, told shareholders earlier this month that A&A was "alert to exploit strategic opportunities that will hasten the industry's inevitable consolidation".

But despite some stock market fizz – takeover speculation has helped push the shares in the UK's Willis Corroon up 10 per cent in the past three weeks – there has been little action.

That raises the question of whether, as in banking and insurance underwriting, consolidation offers a solution to brokers' difficulties? Or is the sector condemned to perpetual gloom?

The sector's difficulties are manifold. Most obviously, insurance rates have tumbled in recent years, reducing commission income earned when placing business with underwriters. Lower interest rates have cut investment returns and low inflation has discouraged companies from buying increasing amounts of insurance.

'The overriding problem is putting people businesses together'

Demand patterns have changed profoundly. The biggest brokers offer global expertise demanded by multinational clients. But commercial buyers are increasingly "self-insuring", by bearing the cost of smaller risks themselves.

Corporate buyers expect higher levels of service, including specialist skills in managing workplace risk. But by so reducing the dangers they face, companies reduce the need for insurance.

At the same time, clients are preferring to pay fees, rather than commissions. This increases the scope for competition because remuneration is determined by the brokers pitching for business, rather than varying according to the amount of insurance bought.

Such factors explain why the total turnover of the big six brokers has, after adjusting for inflation, remained broadly flat in the past few years.

One response would be to expand into new services and markets. Mr Max Taylor, chief operating officer at Willis Corroon, argues "no insurer or indeed client understands the global marketplace of commercial insurance providers like the brokers".

Yet when brokers try to develop new services they often run up against competition: accountancy firms, for example, are developing risk management expertise and enjoy strong board-level contacts with blue-chip clients.

Expansion is possible into continental Europe, where local brokers have tended to remain within national borders and large companies traditionally rely on in-house insurance buyers. Emerging economies, too, offer opportunities.

But, as Mr Taylor acknowledges: "The enormous population of many of the developing economies should not be confused with the population of commercial insurance opportunities, at least not for a while."

So consolidation seems alluring. By joining forces, the large insurance brokers could not only increase their geographical spread and expertise: fewer brokers would also mean fewer competitors.

There is also scope for economies of scale, albeit not on the same scale as in banking or insurance underwriting. Much of brokers' time is absorbed in handling and processing policy claims – tasks suited to automation. Willis Corroon and Sedgwick, for example, have large teams servicing insurance policies sold over the past few decades.

But if consolidation makes sense in principle, it is hard to see who might make the first move. Marsh & McLennan, the world's largest broker, has enjoyed good earnings growth in recent years from Putnam, its investment arm, and as far as insurance services are concerned, has tended to look for organic growth rather than big purchases.

Similarly – despite the aggressive comments of chairman Mr Zarb – Alexander & Alexander has concentrated on acquiring smaller companies or teams in certain practice areas or geographic regions.

That has left attention focused on Chicago-based Aon, which in the past six months has raised more than $1.2bn by selling two life insurance companies – prompting speculation that it might buy Willis or Sedgwick.

Another possibility is Willis joining forces with Sedgwick. The problem with such theories, however, is that brokers' heavy reliance on the expertise of their staff means any benefits from merging could be quickly offset by the desertion of key employees.

As Sedgwick's Mr Riley says "the overriding problem is putting people businesses together".

Mr Patrick Ryan, chief executive of Aon, says: "Our fundamental strategy has been much more geared towards [acquiring] 'boutique' businesses that fit into our culture and strategy."

Some in the industry argue sufficient consolidation has taken place already. Willis, for example, has decided in the past two years to concentrate largely on serving UK and US companies, as well as reinsurance broking and other specialities. Johnson & Higgins, the private broking company, is largely US orientated.

If that is true, there seems little chance of an end to the overcrowding. For now, the profits outlook is uninspiring rather than cataclysmic.

As Mr Roman Cizdyn, insurance analyst at Merrill Lynch, says: "When you have horror stories, that is when they will start thinking about consolidation on a realistic basis."

One chief executive warned that of the 'big six' insurance brokers, the 'cake can only accommodate three or four'

Mediaset shuffles its board ahead of float

By Andrew Hill in Milan

Mediaset, the Italian media group controlled by Mr Silvio Berlusconi, yesterday reshuffled its board in a further attempt to improve the chances of a successful flotation.

Four directors stepped down, including Mr Marcello Dell'Utri, one of Mediaset's four managing directors, and Mr Alfredo Messina, a managing director of Fininvest, Mediaset's controlling shareholder.

Consob, Italy's financial markets watchdog, must decide shortly whether to approve Mediaset's prospectus. The flotation should value the company at about L7,000bn ($4.5bn) and reduce the stake held by Fininvest, Mr Berlusconi's private holding company, from just under 70 per cent to less than 50 per cent.

Mediaset is attempting to ring fence the company against the impact of judicial investigations into managers of Fininvest and underline its attractions, which include ownership of Italy's three largest commercial television channels and the potential to exploit the telecoms sector.

Mediaset said it would keep to its timetable. The company planned to launch an international roadshow for the offer next week with a view to flotation by the end of June or early July.

The Mediaset board will meet again today to decide on the price range for the shares. Banks advising the company have pressed Fininvest to set a wide range, in case potential investors are deterred by the legal uncertainty. The board is expected to approve a minimum price of L6,000 a share for the float – well below the L6,875 paid by existing minority shareholders – but it could set the actual range for the offer at a higher level.

The board changes were unexpected, although sources close to the company said the reshuffle had been planned for weeks.

Mr Fedele Confalonieri, chairman of Mediaset and of Fininvest, said the appointment of four new directors "gave a clear signal on the theme of conflict of interest and the transparency of relations between the controlling shareholder and its subsidiary".

Mr Giuliano Adreani will replace Mr Dell'Utri as one of the team of executive directors at Mediaset.

Bid war heightens for UK utility

By Simon Holberton in London

The bidding war for Southern Water, the south-east of England water utility, turned acrimonious yesterday when Southern Electric topped Scottish Power's offer with a £1.6bn ($2.43bn) agreed takeover.

Scottish Power, which on Tuesday announced a £1.54bn bid, accused Southern Electric of pursuing a "reactive and defensive" strategy that did little for competition.

Southern Electric said it "noted" Scottish Power's statement. It added that the Scots had completely missed the point: "We came out with a higher offer that received a strong recommendation from Southern Water's board," it said.

Mr Ian Robinson, Scottish Power's chief executive, said Southern Electric's shares and cash bid gave nothing new to customers and "offers the prospect of significant job losses below board level".

Earlier, Southern Electric's bid, which values each Southern Water share at £10.03 and includes a cash alternative of 975.7p, was recommended by the water utility. It bought 15.7m Southern Water shares, 9.9 per cent of the company's capital, at 995p a share.

Southern Water's shares closed 46p higher at 987p, while Southern Electric's closed 19p lower at 707p. Scottish Power ended 6p up at 625p.

Mr William Courtney, Southern Water's chairman, said the offer represented good value for shareholders and customers. "We firmly believe that the combination of two strong businesses experienced in providing essential services will be of benefit to customers and the community," he said.

However, unlike Scottish Power, which is offering customers a 3 per cent cut in water bills for two years starting April 1998, the Southern Electric bid provides no inducement. Mr Courtney said that, in the normal course of business, water prices would be cut by 1 per cent this year and there would be further cuts in subsequent years.

Mr Geoffrey Gibson, chairman of Southern Electric, said the businesses of both companies were highly complementary in terms of geography, customers and core operational skills.

Lex, Page 14

Head of Snecma dismissed in row over strategy

By David Buchan in Paris

The French government yesterday dismissed Mr Bernard Dufour as head of the state-owned Snecma aero-engine company. It complained of his failure to sell off non-strategic assets quickly enough and, in thinly-veiled terms, of his recent row with General Electric, Snecma's long-term US partner.

The government said it would announce a successor shortly, and speculation centres on Mr Jean-Paul Béchat, who spent many years in the Snecma group before being appointed head of SNPE explosives company in 1994.

Mr Alain Lamassoure, the government spokesman, yesterday said the summary dismissal of Mr Dufour, who came to Snecma in 1994 from GEC-Alsthom, the UK-French company, was "a bit exceptional". But he said "the recent positions taken by Mr Dufour, notably on Snecma's policy of alliances and its privatisation, had raised questions about the enterprises strategy", while Mr Dufour had also failed to heed "repeated government demands" to speed up asset sales.

Mr Dufour's dismissal is the result of a series of disagreements with ministers and other industrialists.

Last week, Mr Dufour revealed to the press that the government was studying the privatisation of the loss-making Snecma. He said he wanted the company to stay in "entirely French" hands and that it would need a FFr6bn-FFr10bn ($1.14bn-$1.9bn) recapitalisation from the state.

Ironically, one of the main complaints against Mr Dufour is the recent breach in Snecma's long-standing partnership with GE in making the CSM range of aero-engines.

Mr Dufour had insisted that Snecma play a bigger technological role in the planned CSM-XX engine to power the stretched version of the A-340 Airbus, by making part of the "hot" engine core. GE refused and recently negotiated an exclusive six-month study contract with Airbus to supply this engine by itself.

Mr Dufour retaliated by signing a similar contract to study development of smaller engines with Pratt & Witney and by making clear he wanted GE kept out of Snecma's capital. GE had indicated its readiness to take a 20 per cent share in Snecma - an offer that might prove useful in any privatisation of the company, which last year lost FFr1.2bn on French based aero-engine sales of FFr8.6bn.

Mr Jean Tierson, Airbus president, complained that Mr Dufour's refusal to follow GE in cutting engine prices - because of Snecma's own financial problems - had resulted in Airbus losing sales to Boeing. GE is also believed to have told Mr Pierson that its Gecas aircraft leasing arm would only buy Airbuses if there were a change at the head of Snecma.

US West joins BFr37bn Flemish telecoms tie-up

By Neil Buckley in Brussels

US West, the US telecoms group, is teaming up with 17 Flemish cable-TV companies and a consortium of investors to create a sophisticated broadband telecoms network for Flanders. The deal involves investment of BFr37bn ($1.2bn) over 15 years.

The service, Telenet, hopes to provide competition in telephony services for Belgacom, the former state-owned group in which a consortium led by Ameritech, another US telecoms group, took a 49.9 per cent stake for BFr73.3bn in December.

It will convert the existing 52,000km of co-axial cable which links 95 per cent of the 2.1m homes and businesses in Flanders into a broadband network capable of offering advanced communications services, as well as video-on-demand, pay-TV, interactive games and other services. It expects to begin within a year.

Telecoms team: (from left) Alex Brabers, GIMV; Piet Vandermeersch, Telenet; Cliff Stice, US West; and Dirk Boogmans, Telenet Reuter

The alliance, concluded this week after more than a year of feasibility studies, is the latest in a spate of telecoms deals ahead of liberalisation of European Union telephone services on January 1 1998.

US West has a 25 per cent share of the new company, with 35 per cent held by the 17 cable distribution companies. Six of these are pure public utility companies, while 11 are mixed utility companies with elements of public and private ownership. A further 20 per cent is held by GIMV, the Flemish investment company, while a consortium of investors including Kredietbank, ABB, and Gevaert has the remaining 20 per cent. The group will have capital of BFr13bn.

Much of the projected BFr37bn investment will come in the first seven years. This will involve BFr15.4bn to create a fibre optic "backbone" ring linking the existing cable services, with switch and transmission equipment: BFr13.2bn to upgrade the existing networks: and BFr6.4bn in administrative systems. The group expects to break even by the sixth year, with annual turnover by the 10th year projected at BFr20bn.

Mr Gary Ames, US West's chief executive, said the move complemented its existing European cable interests, including a move into the UK as founding partner of TeleWest, the world's largest independent operator of combined cable TV and telephone services, as well as investments in the Netherlands, France, Scandinavia and eastern Europe.

He said high telecoms prices in Belgium made it ripe for competition. The former monopoly provider, Belgacom, which recently installed a new board following its partial privatisation last year, is busy restructuring and cutting staff – and attempting to throw off a reputation for poor service.

Creditor banks give assent to Belleli restructuring plan

By Andrew Hill in Milan

Creditor banks of Belleli yesterday cleared the way for the eventual break-up and sale of the internationally-known Italian engineering contractor, by signing up to a financial and industrial restructuring plan.

The formal approval of the plan cuts almost all the group's ties with the founding Belleli family, which managed the company until last year when it hit financial difficulties. The original Belleli holding company is now under court administration.

The conversion of bank debt into equity in a restructured holding company, called Impianti, will leave the family with only a minimal stake.

Mr Renato Cassaro, brought in as chief executive in November, said yesterday the company would now be able to press ahead with an important contract with Shell Offshore, the US offshore exploration arm of Royal Dutch/Shell, for the construction of a new drilling platform known as Ursa.

Belleli expects to be able to sign the contract, worth L250bn ($160m) to the Mantua-based company, next month. Shell had been cautious about going ahead with the deal while Belleli was still in administration.

Mr Cassaro said yesterday he expected a Mantua court to lift the administration order in "a couple of months". He explained that the Ursa project would be handled by a new company, especially established to reassure Shell that income from the contract would not simply be used to finance the rest of the group.

Belleli is well-known for its work on heavy engineering contracts, such as the construction of power stations and deep-sea oil platforms, but delays in payment on government contracts led to a financial crisis last summer.

"If this had been any other company, without the strong technological base, we would not have signed this restructuring plan," Mr Cassaro said yesterday.

Mr Cassaro, a former manager with Iri, the Italian state holding company, now intends to proceed with the restructuring and eventual sale of the group. Its core energy and offshore subsidiaries will be wholly owned by Impianti, the new holding company, and non-core businesses will be sold first. The aim was to sell the energy and offshore activities themselves by the middle of 1998, he said.

All but seven of the group's 52 creditor banks agreed to write off 60 per cent of Belleli's L1,000bn of debt, and the remaining loans will be converted into equity. The company is still negotiating with suppliers about the write-off of between 60 and 80 per cent of outstanding debts of L280bn.

The crisis cut Belleli's turnover in 1995 to L1,162bn, against about L1,400bn in 1994.

NEWS DIGEST

Dutch to examine proposed TV deal

The Dutch government is to investigate a proposed pay television merger that would leave a single competitor on the fledgling Benelux digital TV market. The move could prove to be a test case for the government's commitment to stimulate domestic competition.

Earlier this week, Philips, the Dutch electronics group, and Royal PTT Nederland (KPN) proposed to join forces with Nethold, a privately-owned information services provider, to introduce digital television in the Benelux this summer. But Mr Hans Wijers, the Dutch minister for economic affairs, told parliament yesterday: "The key issue is whether this new combination will diminish the chance for new entrants into the pay-TV market."

The deal would mean the only existing subscription and pay-per-view competitors in the region – FilmNet / SuperSport (owned by Nethold) and TeleSelect (a Philips-KPN joint venture) – would be subsumed into a single entity. Philips and KPN would receive a shareholding of up to 40 per cent in Nethold Benelux in exchange for TeleSelect.

The proposed merger will bring the Benelux one step closer to the de facto establishment of a TV set-top "black box" technology owned by Nethold. Last month, the Dutch government tabled legislation to ban cartels and to set up a watchdog commission with the power to review proposed corporate mergers.

David Brown, Amsterdam

Banco Di Napoli trims network

Italy's Banco Di Napoli has reached a preliminary agreement to sell 50 branches in Northern Italy to Banca Popolare di Brescia for L290bn ($186m). Banco Di Napoli said the operation would help improve its liquidity by decreasing interbank debt. On Tuesday, Italy's Treasury ministry said it had nominated N.M. Rothschild as adviser on the restructuring of the troubled bank. The planned acquisition fits in with Banca Popolare di Brescia's strategy of expanding in northern Italy. While the deal has not been finalised, the two banks noted that their negotiations were now exclusive.

AP-DJ, Milan

PT shares rise ahead of offering

Shares in Portugal Telecom rose yesterday amid reports of strong demand for a secondary global offering of 22 per cent of the group that closes on June 7. PT shares closed at Es3,699 yesterday, up just over 1 per cent on Tuesday's close. Brokers said some institutional investors were buying shares on the open market because they were concerned they would not be allocated all the shares they wanted through the book-building process. "This is pushing the price up ahead of the sale," one Lisbon dealer said. "But investors would prefer price stability now and growth after the sale."

The shares have gained 32 per cent since an initial public offer of 27 per cent of PT's equity a year ago. The secondary offering is to be priced on June 10 before trading in the new shares begins the following day. Co-ordinating banks said pre-registration for a public offer of 11m shares to Portuguese investors, which closed yesterday, was heavily oversubscribed.

Peter Wise, Lisbon

Transavia declines to Fl 17.6m

Transavia, the 80 per cent-owned charter airline subsidiary of KLM Royal Dutch Airlines, saw its net profits for the fiscal year ending March fall to Fl 17.6m ($10.2m), from Fl 23.4m in 1994-95, despite having carried 14 per cent more passengers. The lastest result was bolstered by a Fl 13.1m extraordinary gain connected with the sale of three aircraft. Operating profit slumped from Fl 16m to Fl 4.52m.

David Brown

Wella chairman gets to the root of the problem

Costly expansion and acquisitions left little time for promoting core brands, writes **Paul Abrahams**

Wella lost its lustre last year. The world's largest supplier of professional haircare products not only suffered a 48 per cent fall in net earnings, but it also lost its chief executive. Its shares have tumbled more than 40 per cent from their peak in July last year.

Mr Jürg von Craushaar, chairman, concedes much of the blame must be laid at the company's feet. "Our difficulties last year were partly because of weak markets. But the damage was also in-house and self-inflicted," he says.

The external factors included the relentless rise of the D-Mark, which cost the company the equivalent of 4 per cent of sales growth. Poor demand in big markets such as Germany – responsible for a third of turnover – also hit sales and profits.

But Mr von Craushaar admits an acquisition spree meant management took its eye off the ball. Under the dynamic leadership of the previous chairman, Mr Peter Zuhlsdorff, the company had expanded rapidly through acquisition. In just three years, it bought Los Angeles-based Sebastian, the Silvikrin and Vosene brands in the UK from SmithKline Beecham, and Muehlens, maker of the 4711 perfume.

"They were all good deals in themselves, and they all made money, but we ignored the core Wella brands, and that led to the disastrous results last year," he concedes.

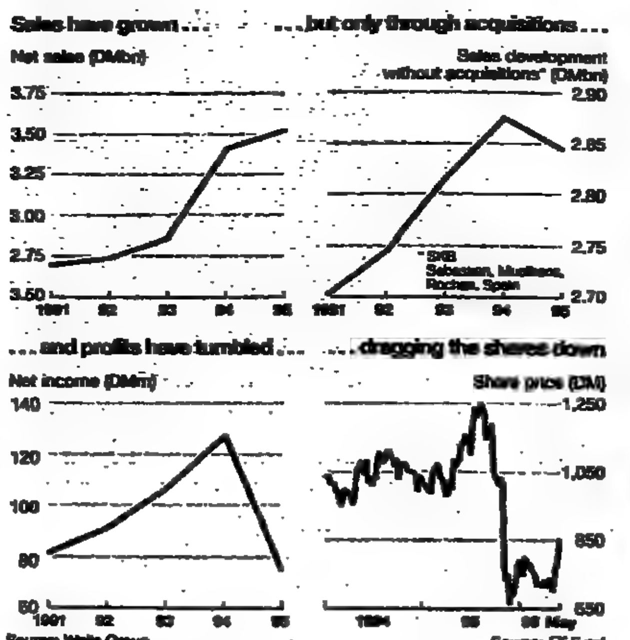
The problems were global. In China, the company set up a large distribution network, but attempted to market inappropriate items, such as styling products. Sales were only half the expected levels, and the subsidiary was crippled by its high cost base. In Russia, management failed to set up an adequate distribution network.

The German group was also slow to meet new challenges. In the US, acquisitions by Bristol-Myers Squibb and L'Oréal in the professional haircare sector transformed the studio market. And in the UK, the company was troubled by supermarkets increasingly pushing own-brand products and an aggressive and successful marketing campaign by Procter & Gamble for its Pantene range. Margins tumbled as prices came under pressure and marketing spend increased.

The poor sales performance – in 1995 turnover increased only 3.2 per cent, compared with 18.9 per cent the previous year – would have hit profits at the best of times. But Wella compounded its problems by botching a reorganisation of its manufacturing operations.

The intention was laudable: costs would be saved by cutting the number of European sites manufacturing Wella products from 14 to four. The four sites, two in Germany, the others in Italy and France, would specialise in particular ranges.

"Frankly speaking, we made some mistakes. Not least, we did it too quickly," Mr von Craushaar says. Wella ran out of products across Europe. Customers, aware of shortages,



ordered ever greater quantities, exacerbating Wella's difficulties. The cost of contract manufacturing to make up the shortfall hit margins.

The sources of last year's problems have been eliminated, claims Mr von Craushaar. Currencies, which wreaked such havoc last year, have been neutral during the first quarter. Although the yen's depreciation was significant – Japan is Wella's biggest market after Germany, generating about 8 per cent of sales – the effect was offset by the appreciation of other currencies.

Foreign subsidiaries have also been brought better under control, he says. In China, management has been changed, costs have been slashed and turnover increased 30 per cent. That should permit the business to break even this year.

Russia remains problematic, but the management has also been changed and better distribution networks set up. Mr von Craushaar says the Russian operations should be profitable in 1998. The UK should also make money because of new product launches. The premium price of the Experience

Jürg von Craushaar: 'Frankly speaking, we made mistakes'

brand should offset high marketing costs.

"We have to concentrate on our strengths," says Mr von Craushaar. "We will grow the core businesses." For the most part this will be achieved organically, he says.

Nevertheless, he hopes to set up joint ventures in China and India, and make an acquisition in the US retail market. This will not happen just yet, even though on a global basis the company still ranks fourth behind L'Oréal, Unilever and Procter & Gamble in the retail sector.

Analysts believe that may be because net debt has increased from just DM375m at the end of 1993 to DM886m ($576m) at the end of last year, taking Wella's net debt-to-equity ratio to 126 per cent.

But Mr von Craushaar's measured ambitions may hold back the stock. The company may struggle to grow, given that most expansion has been through acquisition. "Mr von Craushaar looks solid, but not as dynamic as his predecessor. His emphasis on organic growth rather than acquisition suggest the company's performance could prove pedestrian," says Mr Klaus Röpke, analyst at James Capel in London.

The shares trade on a 1997 price/earnings ratio of 17, a significant discount to competitors Beiersdorf and L'Oréal (excluding its drugs arm, Synthélabo) which are trading at about 22 times earnings. On a price/cash earnings basis (calculating cash earnings as net profits plus depreciation), the company is trading at a 50 per cent discount, according to Mr Röpke.

Mr von Craushaar hopes the shares will recover if he can hit his medium-term targets of boosting operating profits 25 per cent a year, and pushing net margins to 4 per cent, compared with 2.1 per cent last year.

In the meantime, Mr von Craushaar looks pained as he examines a graph tracking Wella's share price over the past year's difficulties. "It's an ugly picture," he says.

Cement groups battle for Polish production capacity

By Christopher Bobinski in Warsaw

Intense competition by foreign cement producers for Poland's remaining domestically owned capacity is boosting prices for plants and increasing the value of national investment funds set up last year under the country's controversial mass privatisation programme.

Rumeli, a Turkish investment group which has specialised in the cement industry, said last week it wanted to invest $200m in Poland's cement sector. It is competing against companies such as Holderbank of Switzerland, Dyckerhoff of Germany and RMC of the UK, all of which have yet to establish a substantial foothold in Poland.

About 65 per cent of the country's 15m-tonne cement-producing capacity is controlled by foreign companies, such as CBR of Belgium and Lafarge of France, which bought plants under the privatisation programme between 1993 and last year. About 10 per cent of capacity remains directly in state hands while 25 per cent, made up of six plants, is controlled by the national investment funds.

Under the privatisation programme, the 15 NIFs have been handed a 33 per cent stake in 512 state sector companies while each member of the population is entitled to a share in each NIF at a nominal overall charge of 20 zlotys. All the NIFs but one are run by teams of foreign and local investment bankers, with each NIF owning controlling shares in about 35 companies and minority 2 per cent stakes in the rest.

Recently, 12 NIFs sold their minority stakes in the Malogoszcz cement works to Lafarge, giving the French producer a 23 per cent share in the plant and valuing it at $80m.

This price, which corresponds to about $100 per tonne of cement-producing capacity compares, favourably to the $68 per tonne Lafarge paid when it bought a 75 per cent stake in the Kujawy works from the Polish government for $46m almost a year ago.

It is also more generous than the DM157m ($101m) CBR agreed to pay in 1993 for a 51 per cent stake in the Gorazdze cement works and 80 per cent of the equity in Strzelce Opolskie, which together have about 3m tonnes of capacity and provide approximately a quarter of the country's output.

Gorazdze has since been listed on the Warsaw Stock Exchange, which values the plant at $200m.

CRH, the Irish construction group and Elektrim, its Polish partner in Holding Cement Polska, last year paid only $57m for a 75 per cent stake in the Ozarow cement works, giving HCP a tonne of production capacity for about $50.

In another move, the Progress Fund, managed by Raiffeisen of Austria and W.S. Atkins, a UK consultancy, is poised to choose an outside investor for Nowa Huta, a small cement works in Krakow.

This transaction, which would result in the sale of minority stakes held by the other funds, coupled with a capital increase, is also likely to value the plant at well above prices achieved by the government so far.

The fund managers urgently need such results to show that they are obtaining better deals than state officials because the scheme is coming under fire from the Solidarity trade union movement and its right wing, nationalist, political allies. They argue that foreigners have too great a say in the programme.

In addition, continuing conflicts in some NIFs between government appointed supervisory boards and the managers threaten to undermine a basic tenet of the World Bank-backed programme – that foreign investment banks should be involved.

Decisions on the fate of two other cement producers, Nowiny and Wierzbica, which together account for about 10 per cent of the industry's capacity, are being delayed because of rows inside the NIFs which control them. In NIF No 11, Wasserstein Perella has been told to quit by its supervisory board while NIF No 13 has seen Yamaichi and Regent Pacific threatening to take their supervisory board to court to establish their right to manage the fund.

Telecom Eireann profits doubled as mobile business surges

By John Murray Brown in Belfast

Telecom Eireann, the Irish state-owned telecoms company which is in negotiations to sell a 35 per cent stake, reported a 137 per cent rise in profits for the year to April 4. This enabled the company to reduce its debt by I£159m ($248m) despite aggressive price cuts in most of its services.

The company is in talks with two foreign bidders – a consortium made up of Telia, the Swedish company, and KPN, the recently privatised Dutch telecommunications company; and Tele Danmark, the Danish telecoms group. Telecom Eireann hopes to announce the result of the tender for a strategic partner in July.

KPN-Telia is understood to have offered an indicative price of I£220m, although TE is hoping the final sale price will be about I£400m. Tele Danmark is seeking a partner for its bid.

The injection of new equity will provide a further boost to the TE balance sheet. The group achieved a reduction in its debt equity ratio from 1.9 to 1.4 in the year as a result of the borrowing reductions.

Mr Ron Bolger, chairman, said TE was "at last within sight of reducing the debt millstone which has threatened the company's viability for many years".

Pre-tax profits rose from I£49m in 1995 to I£116m. Turnover was up 12 per cent to I£1.09bn, breaching the I£1bn mark for the first time despite a I£65m price cuts package.

The company achieved 12.4 per cent overall growth in telephone traffic, which accounts for 56 per cent of total turnover. It reduced its basic charges to the UK by 50 per cent, and to the US by 64 per cent. These two destinations account for 75 per cent of all international traffic. TE claims to offer the second cheapest telephone rates in Europe, which is one reason for the rapid expansion in telemarketing investment. Ireland now accounts for 40 per cent of all international call centres in Europe.

Telephone rental accounted for 19 per cent of turnover, and overseas income for 11 per cent. The number of new mobile connections increased 80 per cent to 158,000, compared with 163,000 new fixed telephone lines, making Ireland the fastest growing mobile market in Europe.

The profit includes a restructuring provision of I£35m, reflecting the cost of severance pay, after 600 redundancies as part of the company's strategic review.

Operating costs were up 6 per cent to I£607m but fell slightly as a percentage of turnover from 58 per cent to 55 per cent, which the company described as "an encouraging step in the right direction".

In the next five years, TE plans to cut its pay bill by a third – or I£110m – through early retirement and other schemes.

NEWS DIGEST

Sandvik in position to control Tampella

Sandvik, the Swedish toolmaker, yesterday won its bid for control of Tampella by ensuring it will take a majority stake in the Finnish industrial group over the next three years. Just a day after forcing its Swedish rival Svedala to withdraw a SKr1.4bn ($205.2m) bid for Tampella, Sandvik announced it had reached an agreement to, in effect, exchange its 25 per cent stake in the Tampella subsidiary Tamrock for shares in the parent company.

Once concluded, the conversion will take Sandvik's stake in Tampella from 48.2 per cent to about 55 per cent. Tampella agreed to buy back Sandvik's Tamrock stake for FM325m ($68.2m), but only FM3m will be paid in cash. The rest will be in the form of loans convertible to Tampella shares.

Sandvik built up its Tampella stake in a series of bilateral purchases from large Tampella shareholders, but under local takeover rules it was never obliged to make a full bid. It paid FM10.90 a share for most of its stake, ahead of the FM10.50 cash value of Svedala's failed offer.

Hugh Carnegy, Stockholm

Lufthansa ends Modiluft accord

Lufthansa is ending its relationship with private Indian carrier Modiluft with immediate effect, an official of the German airline said yesterday. "Financial constraints between the two partners that do not conform to internationally accepted and practised business norms leave Lufthansa no other choice but to move in this unhappy direction," said Mr Dieter Heinen, Lufthansa's senior vice-president for the Middle East, Africa and Asia-Pacific.

Lufthansa and Modiluft have had a technical co-operation agreement since February 1993. "Our decision is based strictly on commercial principles," Mr Heinen said. He said the German airline continued to believe India would remain one of its most important markets.

Mr Heinen said the decision to break ties with Modiluft would not "jeopardise or undermine any other project we are currently involved in, or plan to undertake in the country in the future". A regional passenger airline, Modiluft started operations in May 1993. It plans to increase its fleet to 12 aircraft from seven over the next few months, and to 25 by 2000. Modiluft operates some 50 flights to almost two dozen destinations in India. New Delhi is its main hub, and it has smaller hubs in Bombay and Calcutta.

Reuter, New Delhi

Vasakronan loan in syndication

A $200m credit facility for Vasakronan, the Swedish state-owned real estate company which counts Stockholm's opera house among its properties, was launched into general syndication yesterday. The five-year loan, the first international facility for Vasakronan, is being arranged by Chase and Enskilda.

The loan carries a margin of 22½ basis points over the London interbank offered rate (Libor) and a commitment fee of 11¼ basis points. Banks taking up $25m of the loan will earn 7½ basis points. Although the loan is not guaranteed by the government, there is a covenant which prevents the state from lowering its stake in Vasakronan below 51 per cent.

Vasakronan, whose tenants are mainly government authorities, from the police to the inland revenue, will use the proceeds of the loan for refinancing and general corporate purposes.

Antonia Sharpe

Zurich Insurance upbeat

Zurich Insurance, the Swiss insurer, expects to produce double-digit profits growth this year, as it continues to digest recent US acquisitions, Mr Rolf Hüppi, chief executive, said yesterday. He said new US businesses last year accounted for about one-third of the 13.3 per cent rise in Zurich Insurance's consolidated gross premiums, expressed in local currencies. These included business written by Home Holdings, US associate of Swedish insurer Trygg-Hansa.

Presenting 1995 results, Mr Hüppi said he expected a "favourable contribution" this year from the recently-acquired Kemper US life and asset management companies. However, he said the performance of re-named asset manager, Zurich Kemper Investments, "does not as yet fulfil middle and long-term expectations", although it had been in line with forecasts made during the acquisition's planning stages.

Zurich increased consolidated profits 25.7 per cent to SFr874.1m ($685.9m) in 1995. After converting into Swiss francs, gross premiums rose 4.8 per cent to SFr26.4bn. Mr Hüppi expected growth in gross premiums of between 8 and 10 per cent this year, expressed in local currencies. He said: "Unless faced with exceptional events in the area of claims or on the capital and foreign exchange markets, I am confident that we will achieve a further improvement in insurance operating return in the current year and a double digit growth rate in annual profit."

Ralph Atkins, Insurance Correspondent

Domestic sales drive Mitsubishi Motors

By Michiyo Nakamoto in Tokyo

Mitsubishi Motors (MMC), one of Japan's leading vehicle makers, posted record profits on a non-consolidated basis last year. The result was helped by cost-cutting measures and higher sales in the Japanese market.

However, MMC suffered a sharp fall in consolidated profits, reflecting heavy marketing costs related to the launch of its passenger car being manufactured at a joint venture it has with Volvo in Europe, the company said.

Group sales rose 4 per cent from Y3,414bn to Y3,537bn ($32.56bn), but operating profits declined 25 per cent from Y95.9bn to Y71.9bn, while recurring profits were 41 per cent lower at Y31.3bn.

The parent company, however, increased recurring profits by 15 per cent from Y48bn to a record Y55.4bn on sales down by 5 per cent from Y2,652.5bn to Y2,522.6bn. The better profits were attributed to cost-cutting measures.

MMC, which has been successful with a smaller version of its popular four-wheel drive model, the Pajero, enjoyed a 6 per cent volume rise in domestic passenger car sales, including mini-vehicles with engines of 650cc or under.

The carmaker's growth in the domestic market, where it aims to increase its share from a record 12.5 per cent last year to 15 per cent in the near future, was somewhat obstructed by the disappointing performance of the Galant, its mainline passenger car which is approaching a model change this year.

Exports fell significantly due to the shift of production overseas, particularly to the US.

In the US, where MMC has faced a sexual harassment suit brought by a government agency, operating profits improved, the company said.

MMC is injecting capital into its US operations in an attempt to strengthen its financial position and will be taking a charge to write off the value of its US arm, which has been running at about 60 per cent capacity and has liabilities exceeding assets by $400m.

MMC said that the passenger car being made at its European joint venture, the Carisma, had sold firmly in the current year. Against 6,700 units sold last year, when the car was sold in only five markets, the Carisma has sold 8,500 units in the first three months alone of this year. MMC is targeting sales of 60,000 to 70,000 a year after the facility goes into full production later this year.

MMC expects sales and profits to rise this year, on the strength of new models being launched as well as continued cost-cutting. Parent sales are forecast at Y2,680bn, recurring profit at Y58bn, and net profit at Y21bn.

● Increased sales of large trucks with higher profit margins and restructuring helped Isuzu, the Japanese truck maker, post record non-consolidated profits on record sales.

The strong performance enabled the company, which is 37.4 per cent owned by General Motors, the US car maker, to wipe out its cumulative losses of Y33.5bn at the end of March.

Sales were Y1,222.2bn, recurring profits were Y38.9bn and net profits were Y44.9bn. The figures are not comparable with those of the previous year, which was a five-month term due to a change of year-end.

Isuzu benefited from firm demand for trucks overall as well as a relaxation of rules to allow for larger capacity trucks. This change in the law encouraged many companies to buy larger trucks, which have higher profit margins.

Mayne Nickless to dispose of Optus stake

By Nikki Tait in Sydney

Mayne Nickless, the Melbourne-based transportation, security and healthcare group, brought to an end months of speculation yesterday when it said it would sell its 24.9 per cent stake in Optus Communications, the Australian telecommunications group.

Mayne said that it expected to dispose of the shares when Optus floats on the stock market later this year, unless a prior "acceptable" offer was made for the holding.

Analysts have indicated that the telecoms carrier could be valued at A$3.5bn to A$4bn (US$2.78bn-US$3.2bn), suggesting that Mayne might realise close to A$1bn for its shares.

The seller acknowledged that its decision might lead to a short delay in the timing of the float.

Optus also said the float timetable was "still being reviewed" but added that work would continue to prepare the company for a public listing this year.

"The ownership of Optus has been expected to undergo adjustment as founding shareholders reviewed their positions ahead of the float," it said.

The flotation timing has already faced one hiatus when Mr Bob Mansfield, the former Optus chief executive, left unexpectedly, and a lengthy search was conducted for a suitable replacement.

A new chief executive, Mr Ziggy Switkowski, was finally named earlier this month.

Optus was formed as Australia's second telecommunications carrier – in competition to the government-owned Telstra group – in the early 1990s.

Mayne is the largest single shareholder, followed by the UK's Cable and Wireless with 24.5 per cent and BellSouth of the US with a similar stake. The remaining shares are held by Australia-based institutions.

Following the recent A$300m rights issue at Optus, Mayne is estimated to have invested about A$550m in the telecoms group.

However, the Optus stake always sat oddly alongside Mayne's core business, and speculation that it might sell out has surfaced on several occasions.

Yesterday, Mayne said it had decided to focus on its core businesses, and indicated that it hoped to announce expansion opportunities for its healthcare business overseas in the near-future.

"We want to control our destiny and we will not achieve that through passive investments," Mr Bob Dalziel, managing director, said.

NEWS DIGEST

Write-back behind rise at Indian bank

The Industrial Credit & Investment Corporation of India, the country's leading development bank, yesterday announced an after-tax profit of Rs4.74bn ($135m) for the year to end-March. This compared with Rs3.9bn in the previous year, a rise of 21 per cent. The profit was, however, boosted by extraordinary income of Rs380m represented by the write-back of excess provision for depreciation on leased assets in earlier years. ICICI's total income was up 23 per cent from Rs23.64bn to Rs29.01bn.

Earnings per share on fully diluted basis were up 20 per cent to Rs14.1, against Rs11.8 last time. The annual dividend goes up from Rs3.5 to Rs3.7 a share.

ICICI said that while the average cost of funds rose from 10.7 per cent to 11.4 per cent, the average yield on funds in deployment remained unchanged at 14.9 per cent. "The full impact of the interest rate hikes on the lending rates has not been felt in 1995-96," according to the company. The net spread dropped from 3.47 per cent to 2.93 per cent as a result.

The provisions and write-offs towards bad and doubtful debts declined from Rs940m to Rs830m. The share of non-performing assets fell marginally, from 6.9 per cent to 6.7 per cent. ICICI's capital adequacy ratio at the year-end was 10.1 per cent. *Kunal Bose, Calcutta*

Bank Indonesia yankee offering

Indonesia's central bank is preparing to launch its first bond offering in the yankee bond market – the US domestic bond market for foreign issuers – in order to establish a benchmark for future bond issues from the private sector.

Salomon Brothers has been appointed lead manager for the issue with Goldman Sachs, J.P. Morgan and Merrill Lynch acting as co-managers. Details of the yankee bond have not yet been decided but market sources say the central bank plans to raise between $250m and $350m. The fixed-rate bonds will have a maturity of between seven and 10 years.

The offering will be registered with the US Securities and Exchange Commission. Bank Indonesia says the bond sale is "expected as early as July, subject to market conditions".

Analysts say the offering will carry Indonesia's sovereign credit rating: Standard & Poor's foreign currency rating on Indonesia is triple-B while Moody's Investors Service rates Indonesia's long-term foreign currency is Baa3.

The planned bond sale is a departure from Bank Indonesia's usual policy of seeking international financing through a stand-by loan facility. The Indonesian government does not issue bonds on the domestic market.

Earlier this year Bank Indonesia raised $500m through an eight-year syndicated bank loan under its $2bn stand-by facility. Under this system, Bank Indonesia has constant access to a maximum of $2bn through a syndicate of international banks. *Manuela Saragosa, Jakarta*

Goodman in Vietnam re-think

The Australian Wheat Board said yesterday that it understood Goodman Fielder, Australasia's largest food manufacturer, was looking to pull out of its flour mill joint venture in Vietnam, and sell its 52.5 per cent interest in the project.

The joint venture was set up in 1994, with the AWB holding a 17.5 per cent stake and Vifon, a Vietnamese noodle manufacturer, having a further 30 per cent. The AWB stressed that it remained committed to the project. The AWB said it had been advised that Goodman's withdrawal came as part of a retrenchment from "a number of ... projects in Asia" so it could concentrate on its core business. *Nikki Tait, Sydney*

Toshiba promotes vice-president

Toshiba, one of Japan's leading integrated electronics groups, is to promote its executive vice-president, Mr Taizo Nishimuro, to president in succession to Mr Fumio Sato. Mr Sato will become chairman to replace Mr Joichi Aoi, who will become an adviser to the electrical giant.

The appointments will be officially decided at a general meeting of shareholders and a meeting of the board on June 27. Mr Sato has served as president for two two-year terms. Mr Nishimuro joined Toshiba in 1961 and has been executive vice-president since last June. *Kyodo, Tokyo*

Australia, Korea in SE accord

The Australian and Korea Stock Exchanges have signed a memorandum of understanding, designed to formalised communications lines and facilitate the flow of information between the two organisations. The MoU with the Korean exchange follows a similar agreement between the ASX and Kuala Lumpur Stock Exchange earlier this month. *Nikki Tait*

Siam Cement shows 20% growth in first quarter

By Ted Bardacke in Bangkok

Siam Cement, Thailand's largest industrial conglomerate, reported strong first-quarter net profit growth yesterday, despite a drop in earnings at its cement business.

Consolidated net profit in the first quarter rose 20 per cent over the same period last year to Bt2.64bn ($104m). Cement profits fell 23 per cent in the same period to Bt869m. But as cement accounts for only 34 per cent of total sales, the company was able to withstand the fall.

Analysts said a strong showing from the autoparts, tyres and other building materials branches of the company, which account for about 36 per cent of sales, helped support earnings growth.

By contrast, first-quarter profits at the smaller Siam City Cement, where cement accounts for 75 per cent of sales, fell 39 per cent to Bt444m, the company reported yesterday.

Siam Cement's stock rose Bt12 to close at Bt1,204. Siam City Cement's stock fell Bt12 to close at Bt336. Both were among the most actively traded stocks in Thailand yesterday.

Proceeds from sales of investments, which grew from Bt3.96m in the first quarter of 1995 to Bt372.5m in the first quarter of 1996, also helped earnings. Gains from foreign currency transactions went from a loss of Bt3.06m to a gain of Bt15.6m.

Total revenues were ahead 9 per cent to Bt26.2bn, while total costs grew by 8 per cent to Bt23.5bn. The company also made an accounting change which booked income from 15 subsidiaries in its consolidated income statement. As a result of this change, consolidated total assets rose by about Bt18bn.

Metrobank lifted by loan growth

By Edward Luce in Manila

Shares in Metropolitan Bank & Trust Co (Metrobank), the Philippines' largest private-sector bank, soared to a record high yesterday after the company said that net profits grew by 66 per cent in the first four months of 1996.

Metrobank shares closed at 795 pesos yesterday, more than 10 per cent up on the previous week and double the price that they were trading at in January. The bank said net profits rose from 816m pesos a year earlier to 1.35bn pesos ($51.6m), with rapid growth in its loan portfolio contributing to the boost in earnings.

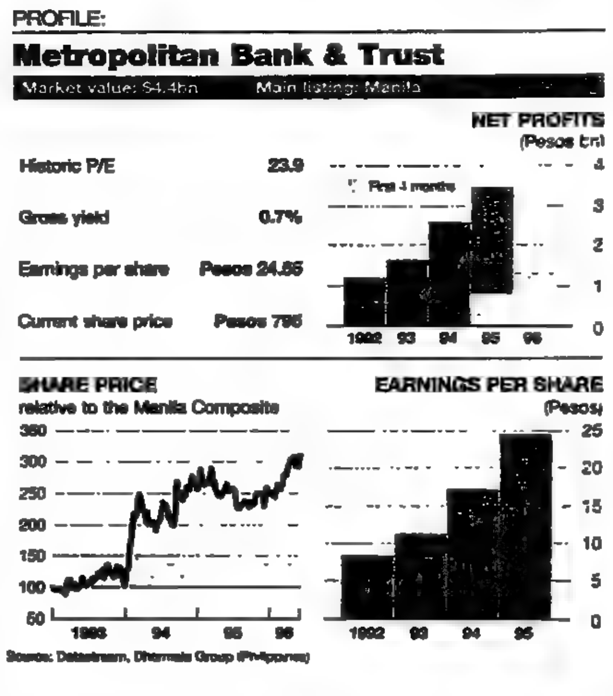
The company, which posted net profits of 3.5bn pesos last year, 39 per cent up on 1994, said its net portfolio lending grew by 59 per cent to 100.8bn pesos during the four months to April. Interest income rose 44 per cent to 4.57bn pesos owing to higher spreads between savings and lending rates, while interest expense growth slowed to 15 per cent in the same period.

Analysts, who point out that Metrobank's deposit base – which grew 14 per cent to 102bn pesos in the first four months – is expanding at a much slower rate than its loan portfolio, say it is unlikely Metrobank will maintain this rate of expansion in the medium term. Metrobank's loan-to-deposit ratio increased from 70 per cent to almost 100 per cent in the past 12 months.

"There is good reason to question the speed of Metrobank's loan expansion and the banking sector's loan growth in general," Mr Lucio Soso, chief researcher at All Asia Capital in Manila, said yesterday. "The question to ask is: 'where is all the new money coming from?' because obviously not all of it is coming from deposit growth."

Analysts also say that with a price to book value of about 2.5 to 3 times (a more informative indicator of banks' share value than the price/earnings ratio) Metro's shares are already trading at a peak.

The rapid monetisation of the Philippine economy, however, and the fact that a large share of Metro's revenues are ploughed back into branch expansion in the provinces – where deposits growth is traditionally higher – suggests there is more mileage in new deposits, some analysts said.



"Metrobank is not over-exposed to any one sector – only 15 per cent of its loans are to property lending, for example," said Mr Jo Jo Gonzalez, chief researcher at Jardine Fleming in Manila.

"Nor is Metrobank's loan growth coming from dollar borrowing but from the interbank markets, implying that there is less cause for worry than might be supposed."

MAS disappoints despite 67% rise

By James Kynge in Kuala Lumpur

Malaysian Airline System yesterday announced a 67.3 per cent jump in full-year net profits, confirming a revival of fortunes at the former state carrier which was bought in 1994 by a telecoms entrepreneur with no airline experience.

Group net profit rose from M$139.27m a year ago to M$233.03m (US$93.3m) in the 12 months to March. Pre-tax profit was M$251.16m, up 67.6 per cent, on turnover ahead 17.6 per cent to M$5.71bn. Earnings per share rose from 19.9 cents to 33.3 cents.

The core company's net profit was M$218.11m, up 61.3 per cent, on turnover ahead 16.3 per cent at M$5.63bn.

Mr Tajudin Ramli, chairman of the airline's owner, Malaysian Airline System Berhad, said costs had been cut and new routes obtained through agreements with other airlines – allowing under-used aircraft to spend more time flying.

"We had to get the planes in the air for longer each day," said Mr Tajudin, who bought the government's 32 per cent stake in August 1994 and set about trying to boost earnings per share from 1.2 cents on a group net profit of M$8.4m in the year to March 1994.

Code-sharing agreements with the UK's Virgin Atlantic, Ansett Australia and Canadian Airlines International provided new routes and helped raise average daily flying times from 11 to 13 hours for Boeing 747s and from seven to eight hours for Boeing 737s.

Total freight and passenger capacity grew by 28.6 per cent to 5.38bn tonne-kilometers, but the overall freight/passenger load factor dropped 1.7 percentage points to 62.3 per cent.

However, analysts were disappointed with the results. They pointed to the fact that the airline's interim pre-tax profit was M$150m, prompting many to hope for a full-year profit of M$300m.

Mr Tajudin attributed the second-half slowdown to a M$70m payment for salary increases and a slight rise in fuel costs. He added that a process of cost cutting and raising productivity was continuing, but said this would not result in redundancies among the group's 20,000 staff.

The airline's M$6.8bn debt remains the biggest problem. A private placement of 70m new ordinary shares this month reduced the debt to equity ratio from 1.8 to 1.6 times. Mr Tajudin said the company was interested in an equity infusion from a foreign company, partly to cut debt and partly to further expand routes.

Coles Myer settles litigation with former finance director

By Nikki Tait

Coles Myer, Australia's biggest retailer, said yesterday that it had settled its litigation with Mr Philip Bowman, its former finance director. Mr Bowman's acrimonious departure from the company last year led to questions about corporate governance standards at the retailer and prompted institutional investors to push for board changes.

Coles said it had agreed to pay Mr Bowman A$1.425m (US$1.13m) for his termination of employment action, and to reimburse him for his legal costs, which total a further A$225,000.

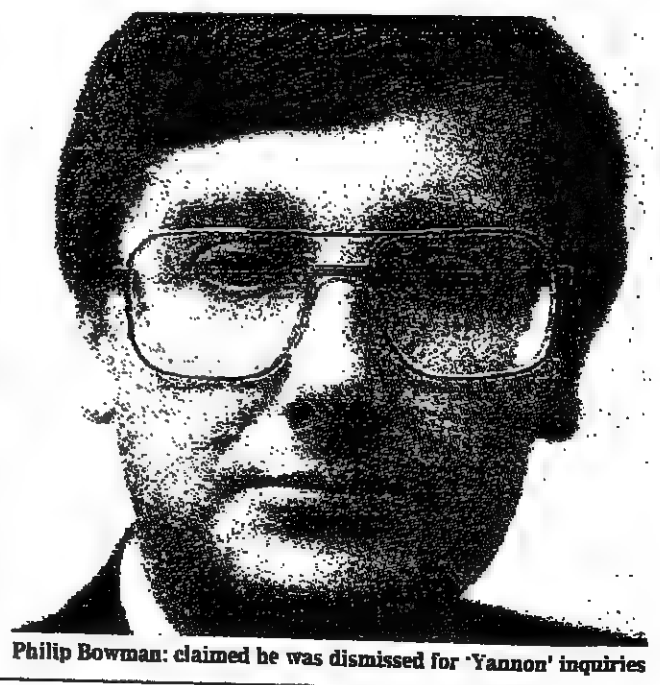
Each party has agreed to withdraw all allegations made against the other, with Mr Nobby Clark, Coles' new chairman, saying he wished Mr Bowman well for the future. Mr Clark added that he had found Mr Bowman "to be a person of complete integrity and sincerity".

The legal battle was sparked last year when Coles sacked Mr Bowman in September, alleging that he had breached its code of conduct by disclosing confidential company information to third parties. Mr Bowman, in turn, sued Coles, claiming he had been dismissed because of his inquiries into the so-called "Yannon transaction".

This was a complex deal, dating from 1990, which cost Coles about A$18m and benefited interests associated with Mr Solomon Lew, Coles' former chairman, by a similar amount.

As more revelations about the Yannon deal emerged, the institutional pressure mounted – culminating in boardroom upheaval.

Mr Bowman had been finance director at the UK's Bass group before joining Coles, and has kept a low profile throughout the legal battle. However, his solicitor was reported yesterday as saying his client planned to return to Australia soon to look for a new position now that the case had been settled.



Philip Bowman: claimed he was dismissed for 'Yannon' inquiries

Texas Instruments chairman dies at 58

By Louise Kehoe in San Francisco and Paul Taylor in London

Jerry Junkins: TI's revenues more than doubled, from about $6bn to more than $13bn, during his tenure Associated Press

Jerry Junkins, chairman, president and chief executive of Texas Instruments, died suddenly yesterday while visiting customers and employees in Germany. He was 58.

Junkins had headed Texas Instruments, one of the world's largest semiconductor chip producers, since 1985, when he was made president and chief executive. He became chairman in 1988.

During his tenure at TI the company's revenues more than doubled, from about $6bn to more than $13bn. TI greatly expanded its international operations, establishing a semiconductor joint venture with Acer in Taiwan, building a large chip plant in Italy and a joint venture with Kobe Steel in Japan, and a joint venture in Singapore with Hewlett-Packard and Canon. TI also recently announced the formation of a joint venture in Thailand.

Junkins was credited with stabilising TI's financial performance by balancing its role as one of the world's leading producers of dynamic random access memory chips – a highly volatile commodity – with the development of new "differentiated" semiconductor products such as digital signal processors for multimedia applications. He also oversaw the company's retrenchment in the defence electronics sector.

Mr Pat Weber, formerly president of TI's semiconductor division, and Mr Bill Mitchell, formerly president of the group's systems and equipment operations, who have shared the office of chief executive with Junkins for the past three years as vice-chairmen of the group, will take over responsibilities for day-to-day operations in the short term. The office of the chief executive had "operated as a team", Mr Mitchell said, so there would be no disruption of operations, or immediate changes.

Jerry Junkins' death "had been a great shock. There is very great sadness throughout the company," said Mr Mitchell. Junkins commanded the affection, as well as the respect, of colleagues and peers in the computer and semiconductor industries as well as among the many community projects in which he had been involved.

A committed "free trader", Junkins was active in promoting the passage of Gatt and Nafta agreements. He had recently undertaken a speaking tour of the US as co-chairman of the Business Round Table, to bolster support for free trade among small business executives. He feared that politicians on the "far right and left" could undermine US support for free trade and believed business leaders like himself had a duty to persuade their peers of the advantages of open trade.

Junkins was a member of the boards of Caterpillar, Procter & Gamble and 3M.

Seagram slides 61% despite rise in revenues

By Tony Jackson in New York and Robert Gibbens in Montreal

Seagram, the Canadian drinks and entertainment group, saw net income from continuing activities fall 61 per cent in the first quarter to US$23m, despite a near doubling in revenues as a result of acquisitions. Cash flow rose 50 per cent to $304m.

Cash flow from the MCA entertainment business, acquired last year, was down 17 per cent on a like-for-like basis at $108m, on revenues 1 per cent lower at $1.1bn. Cash flow from films surged from $43m to $109m.

However, the music division showed a cash outflow of $13m compared with a $50m inflow, as a result of a 27 per cent fall in revenues to $228m and continued heavy investment in new artists and marketing.

Cash flow from the spirits and wine division was down 9 per cent at $148m on revenues up 2 per cent at $958m. The global market remained difficult, Seagram said, though it saw a strong performance from some brands such as Martell cognac, Mumm Sekt and Absolut vodka.

There was some recovery from previous weakness in European wines and spirits, particularly in Germany and Portugal. However, this was offset by a downturn in North America and the Asia-Pacific region.

The soft drinks division increased its cash flow 17 per cent to $48m on sales up 20 per cent at $483m. This was helped by the acquisition of the Dole fruit juice business, but also reflected continued growth at Tropicana.

The net earnings figure was affected by sharply higher taxes – $50m against $22m – despite a 9 per cent fall in pre-tax income to $74m. Net earnings from continuing operations were 6 cents per share, compared with 16 cents.

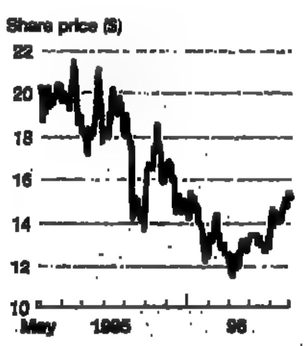
At the company's annual meeting in Montreal, Mr Edgar Bronfman, chairman, reiterated an earlier warning that no financial improvement was expected until the start of the financial year, which is being moved to July 1.

He said the benefits of re-engineering in the wines and spirits division would not be felt until then. Seagram would sell its 15 per cent interest in Time Warner at the opportune moment, he added. Seagram paid $2.2bn for the shares.

Novell slips into red after distribution policy change

By Paul Taylor

Novell



Source: Datastream

Novell, the world's leading supplier of personal computer networking software, posted a second-quarter loss yesterday, as expected. This followed changes in product distribution policy announced this year.

The changes – which reflect the switch in customer purchasing behaviour in favour of site licences rather than boxed software – reduced worldwide inventories held by resellers and distributors by about $225m, and reduced shipments by a corresponding amount.

As a result, the group reported a 15 cents a share net loss for the quarter ended April 27 compared with earnings of 28 cents a year earlier.

Revenues declined to $188m from $530m a year ago when the figures included $149m of revenue from the applications software and UnixWare operations which were sold during the first half. The sale of the applications software, including WordPerfect, a word processing programme, to Corel of Canada was completed in March and led to a second-quarter pre-tax gain of $20m, or 4 cents a share.

Second-quarter revenues were bolstered by strong corporate sales of the group's NetWare 4.1 product and its GroupWise electronic messaging software which accounted for £10m ($15.1m) of revenue.

"In a single quarter we achieved our very aggressive objectives of both completing our sale to Corel and dramatically reducing and rebalancing Novell product inventory in our worldwide distribution channel," said Mr Robert Frankenberg, chairman and chief executive.

Mr Frankenberg said Novell was continuing to gain market share in the enterprise, or corporate-wide, segment of the networking market and said the sale of the applications software business had enabled the group to further lower operating expenses.

The group ended the period with cash and short-term investments totalling $1.2bn, compared with $1.3bn six months earlier.

Shares in the group fell $¼ to $14¾ in early trading.

Royal Bank of Canada up 12%

By Bernard Simon in Toronto

Record investment banking income and lower loan-loss provisions helped Royal Bank of Canada, the country's biggest financial institution, to a 12 per cent advance in second-quarter earnings.

Although yesterday's results were slightly above analysts' forecasts, earnings were 4 per cent below the previous three months.

This reflected a shorter quarter and lower proceeds from the sale of bonds to developing countries.

Net income rose to C$340m (US$247m), or 97 cents a share, in the three months to April 30, from C$304m, or 83 cents, a year earlier. Return on equity climbed to 17 per cent, from 16.3 per cent. Return on assets was unchanged at 0.73 per cent.

Loan loss provisions fell to C$110m, from C$140m.

The bank's portfolio of non-performing loans on April 30, totalling C$633m, was 14 per cent lower than on January 31.

The drop in non-performing loans was almost entirely a result of an improved commercial property portfolio.

Several Canadian banks have pared their property holdings recently by selling off some of their most troubled assets.

A feature of the latest results was a doubling in capital market fees to C$189m, reflecting a record performance by RBC Dominion Securities, the bank's investment banking arm. Earnings from mutual funds grew 28 per cent.

Assets totalled C$199.5bn on April 30, up 14 per cent, including a 7 per cent rise in the bank's loan portfolio.

Royal's share price was unchanged at C$32.85 in early trading on the Toronto stock exchange yesterday.

NEWS DIGEST

US, Canada airlines close to service link

American Airlines and Canadian Airlines International were yesterday granted "tentative" antitrust immunity by the US department of transportation, allowing the two carriers to integrate their US-Canada air services. The department said it would make a final decision after June 4.

Canadian Airlines International is 33 per cent owned by AMR, American Airlines' parent, and the two already share codes on cross-border flights. Under the new agreement the two carriers will fully integrate their cross-border services while retaining their separate corporate and national identities.

The department said final approval of the deal would allow American Airlines to compete more effectively with other carriers and alliances in the US-Canada market, which was deregulated last year. American Airlines applauded the move, saying it would allow the US-Canada "open skies" agreement to reach its full potential. *Richard Tomkins, New York*

New finance chief for Colgate

Colgate-Palmolive said Mr Robert Agate, 60, its chief financial officer would retire on July 1, to be replaced by Mr Stephen Patrick. Mr Patrick is currently vice-president and corporate controller. *AFX News, New York*

Ericsson in San Francisco deal

Ericsson, the Swedish telecoms equipment group, has won an order from PersonalTechnology Services (PTS) to deliver SuperCordless, a low-tier PCS (personal communications service) telephone system in San Francisco in 1997-2000. The first-year value of the agreement was estimated to be $50m, Ericsson said. The order is contingent on PTS acquiring PCS licences in an auction, it said. *AFX News, Stockholm*

Carlton beats City expectations with £143m

By Raymond Snoddy

Record programme sales of £72m helped to push Carlton Communications, the broadcasting and media services group, to better than expected pre-tax profits of £143.3m ($217.8m) for the six months to the end of March.

The 19 per cent increase, on turnover up by 6 per cent to £847.8m, underlines Carlton's growing strength as a maker and seller of television programmes although more than three quarters of the programme sales are to the ITV network.

"Carlton is now one of the largest programme makers in the UK with the expertise and resources to compete on a global scale," Mr Michael Green, chairman of Carlton said yesterday.

Carlton, which owns both Carlton Television in London and Central in the Midlands, said it was providing more than a quarter of the autumn, winter and spring ITV schedule, with dramas such as Sharpe, Kavanagh QC, Bramwell, Cadfael and Peak Practice.

Through Carlton Books, TV tie-ins have been launched and a book devoted to Sharpe is in the WH Smith best sellers lists.

Mr Green explained that increased programme production, associated merchandising deals and taking stakes in new channels around the world would be central to Carlton's future strategy.

Earlier this week Carlton and partners such as the Hindustan Times and Pearson, owner of the Financial Times, launched a new satellite entertainment TV channel in India.

All the signs are that Carlton will not be a buyer of ITV companies such as HTV or Scottish Television at current prices. Under broadcasting legislation now going through the House of Commons, Carlton could probably buy both and still stay below the new limit of 15 per cent of total audience.

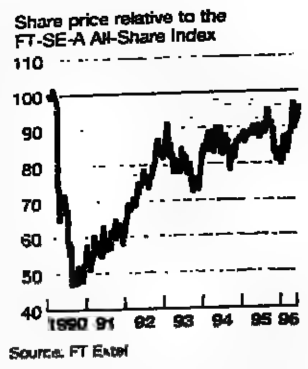
Carlton looked carefully at mounting a hostile takeover bid for MAI, the broadcasting and financial services group now merged with United News and Media, but decided the price was too high. The same is likely to apply to the remaining ITV companies not already part of larger groups.

Analysts yesterday moved up their estimates for the full year to forecast pre-tax profits of between £290m-£300m. Carlton shares, which have risen by 30 per cent in the past 6 months went up 3p yesterday to finish at 481p.

Earnings rose 18 per cent to 13.8p and the dividend rose 17.5 per cent to 4.37p.

LEX COMMENT

Carlton



Carlton went the best way about persuading investors not to expect a mega-deal yesterday, by demonstrating the organic growth it can achieve. The group's broadcasting division may have ground to halt, with advertising revenues flat in the six months to March, but its other businesses are powering ahead. The unfashionable video duplication operation achieved double digit growth and produces substantial cash flow. And with the mass market launch of digital video discs beyond the horizon, technological obsolescence remains a distant threat; besides, Carlton has the technology to produce the new discs. Furthermore, film duplication is benefiting from the trend for studios to release films to a much wider number of cinemas; the division achieved 33 per cent profits growth, and should continue to shine.

Of course, with over £100m of net cash on its balance sheet and a steady conversion of convertible debt into equity, Carlton is well placed to ride the wave of media mergers. But it is signalling – probably, only slightly disingenuously – that it will not pay current UK prices, when it has plenty of opportunities in its existing portfolio. Indeed, Europe is a more likely area for expansion. And if Bertelsmann's proposed merger with CLT falls at a regulatory hurdle, Carlton would be likely to throw its hat into the ring for the Luxembourg-based media group. With profits forecast at £300m for the current year, Carlton's shares are trading at a price-earnings ratio which is 13 per cent higher than the market, but is modest for the media sector. It deserves better.

Cashmere prices hit Dawson

By Jenny Luesby

Steep price rises in the luxury cashmere market triggered a 39 per cent fall in underlying profits last year for Dawson International, the Scottish textile group best known for its Pringle brand.

Trading conditions were "as bad as anyone can ever remember," said Mr Derek Finlay, chairman.

In the UK, warm weather exacerbated the problems of weak consumer demand. In the US, cash-strapped retailers ran down stocks.

The group was also forced to push through price rises. It suspended purchasing of Chinese cashmere, but a 35 per cent increase in cashmere prices in 1994 added £50 to the retail price of each garment. The prices for wool, cotton and acrylic also rose.

Prices had now stabilised, said Mr Finlay, offering relief to the fibres and yarns business where operating profits fell by a third to £10.9m, and to fabrics, where profits fell two-thirds to £2.5m.

For clothing, the underlying loss in the UK doubled to £6.9m, while profits in the US fell by nearly 30 per cent to £8.7m.

However, orders had surged in the past six weeks, helped by a fashion-driven redesign.

Pre-tax profits of £3.9m, after exceptional charges of £5.5m for disposals, compared with £1.7m previously, depressed by restructuring charges of £22.4m.

Total sales fell 24 per cent to £313.1m while overheads were cut by £9m.

Gearing remained stable at 27 per cent.

Earnings amounted to 1.3p, compared with 1.5p losses last time. A final dividend of 1.5p holds the total at 3p.

Profits are forecast to rise to £15m this year, and £25m next year.

The shares closed unchanged at 88p.

Brendan Corr

Derek Finlay: conditions 'as bad as anyone can remember'

WH Smith ready to put DIY chain up for sale

By Christopher Brown-Humes

WH Smith, the high street retailer, is set to signal a readiness to sell Do It All, its loss-making DIY chain, when it presents the results of its strategic review next month.

"Do It All is a transaction waiting to happen," said a source close to the company. "The long-term view is that the market is over-supplied and given the right offer, the group would be very interested in selling."

However, WH Smith maintained it was under no immediate pressure to dispose of the unit – jointly owned with Boots – as sales had recently picked up amid signs of revival in the UK housing market.

Although Boots is the obvious purchaser, it is thought unlikely that the chemists group would want to deepen its DIY involvement.

Other UK DIY groups, who may be interested in at least some Do It All outlets, are B&Q, part of Kingfisher, and Homebase, the Sainsbury subsidiary. Castorama, the French retail group, is also believed to have held talks with the group.

The City has made little secret of its belief that WH Smith should sell or close Do It All, claiming the issue is the most urgent one to be addressed in the strategic review initiated by Mr Bill Cockburn, the new chief executive.

WH Smith's share of Do It All's losses deepened from £3m to £7.7m ($11.7m) in the 31 weeks to January 6, as like-for-like sales slumped 3.2 per cent. Analysts believe Do It All could have lost up to £30m in the year to May.

WH Smith has ruled out a closure of the 195-strong chain, arguing it would be excessively costly. It would face 15 years of outstanding leases and significant redundancy and stock write-off costs.

Some analysts have suggested the total costs of closure could exceed £200m.

WH Smith and Boots have made it clear that their current priority is to reduce the losses and cash demands of about 130 revamped Do It All stores, while closing 80 stores in poor locations. The revamped stores are believed to be close to cash break-even. They have benefited from strong Easter trading and improved market share.

WH Smith instigated its operational review in January, after a second profits warning in a year. Interim profits dropped from £45.2m to £17.3m. In April, the first fruits of the initiative were apparent, when the group unveiled plans to sell its business stationery arm to Guilbert of France for £142m.

Analysts say the review will be aimed at increasing group profitability and refocusing the group's 550-strong high street chain.

Kalamazoo makes $33m purchase to expand in Europe

By Richard Wolffe, Midlands Correspondent

Shares in Kalamazoo Computer Group rose 28p to 143p yesterday after it released an upbeat trading statement and announced a $33m acquisition to expand its computer systems operations in continental Europe.

Kalamazoo said it had conditionally agreed with Datapoint Corporation of the US to buy its activities in European automotive dealer systems (EADS), to be funded partly by a placing and open offer. The rights issue – believed to be the first in the company's 100-year history – will raise about £7.5m net of expenses.

Kalamazoo said EADS was an ideal complement to its UK business, which is the market leader in supplying computer systems to motor dealers. Both are partners with Ford, which is developing a new European computer system with Kalamazoo in the UK and EADS in Germany.

Mr Bob Jordan, chairman, said: "This perfectly positions Kalamazoo to provide pan-European IT solutions to leading motor manufacturers. Following the acquisition, we will become the market leader in automotive dealer management systems in Europe."

The acquisition reinforces Kalamazoo's strategy away from printing towards computer services. Ten years ago the company drew two-thirds of its sales from printing; after the EADS deal, its computer division will account for 80 per cent of group turnover.

EADS, which has been operated as an integral part of Datapoint in Europe, made an operating profit of £2.76m last year on sales of £35.3m.

Kalamazoo reassured the market yesterday with a positive trading statement after experiencing difficulties with its security printing business in the first half of the year.

The company said its print division had ended the year strongly and estimated pre-tax profits for the year to March 1996 would be not less than £5.88m (£6.82m).

Shareholders will be offered 22 new ordinary shares at 103p for every 100 held.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Abacus Polar	6 mths to Mar 31	45.6	(31.4)	4.49	(3.09)	7.3†	(5.9)	1.8	July 25	1.6	-	4.8
Anglian Water	Yr to Mar 31	775.7	(720.1)	238.6	(216.1♠)	78.1‡	(66.4)	21.1	Oct 1	18	30	26
Betterware	53 wks to Mar 2	51.4	(58.3)	9.29♥	(1.01♠)	5.9	(1.2L)	4.35⁑	July 22	1.75	5.2	2.6
Borthwicks	Yr to Mar 30	33.1	(28.1)	1.6♠	(0.8♠)	1.8	(1)	0.8	Aug 2	0.6	1.3	1.3
Bristol Evening Post	Yr to Mar 31	81.2	(80)	8.63♠	(7.58♥)	16.91	(19.85)	9	July 24	8.25	14	12.75
Carlisle	Yr to Dec 31	4.87	(5.07)	4.06L♠	(1.25♥)	2.6L	(1.2)	nil	-	0.25	-	0.5
Carlton Comms	6 mths to Mar 31	847.8	(800.6)	143.3	(120.1♠)	15.3	(12.7)	4.37	Aug 23	3.72*	-	9.44*
Dawson Intl	Yr to Mar 30	313.1	(414.2)	3.9♠	(1.7♠)	1.3	(1.5L)	1.5	Aug 13	1.5	3	3
Hewitt	6 mths to Mar 31	25.5	(17.1)	2	(1.65)	1.82	(1.53)	0.5	Oct 5	0.4	-	1.4
McLeod Russel	6 mths to Mar 31	55.3	(54.9)	3.72	(2.85♠)	4.75	(3.7)	2.85	July 26	2.75	-	6.4
Southern Electric	Yr to Mar 31	1,598	(1,680)	625.1♥	(202.1♠)	196.3	(57.1)	27	Oct 2	20.2	38.3	28.5
Tamaris	Yr to Mar 31	9.51	(4.85)	1.11♥	(0.322♥)	0.23†	(0.12)	0.0515	Aug 14	nil	0.0729	nil
Tandem	Yr to Jan 28	15.1	(9.98)	2.19L♠	(0.917)	4.15L†	(1.91)	nil	-	0.5	nil	0.5

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Kleinwort Euro Priv	6 mths to Mar 31 ★	107.9	(88.3)	3.73	(4.18)	0.75	(0.84)	- -	-	-	-	2.25

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ‡On reduced capital. *Equivalent after allowing for scrip issue. ⁑Includes special of 2.6p. ★Comparatives restated.

Cash or shares for Dairy Crest owners

By Alison Maitland

The 28,000 dairy farmers who indirectly own Dairy Crest, the former processing arm of the Milk Marketing Board, will be offered shares in up to 75 per cent of the company before it floats this summer, or a cash alternative.

The balance of the shares will be placed with institutions.

Dairy Crest also unveiled a 69 per cent rise in pre-tax profits to £37.4m ($56.8m) in the year to March 31.

Sir Derek Andrews, chairman of the residuary milk marketing board, which owns Dairy Crest on behalf of producers, said the company envisaged operating an internal market in the shares for a short period just before flotation. This would enable farmers to buy and sell their allocation of shares among themselves to establish a core of producer-owners.

Sir Derek declined to put a value on Dairy Crest, saying this would be contained in the prospectus to be published in the next few weeks. However, analysts estimate its value at between £200m and £250m.

There will be no public offer of shares.

It dismissed concerns that the BSE crisis made it a bad time to float. It said that an increase in the number of cows the government planned to slaughter, currently 80,000, would have a "minimal" impact on profitability.

Mr John Houliston, chief executive, said: "If there were to be a shortage of milk, the key products that drive profitability would receive the necessary milk."

The slightly larger than expected rise in pre-tax profits was helped by a sharp, one-off increase in EU butter and skimmed milk prices, cost-cutting on doorstep deliveries, and strong demand for brands such as Cathedral City cheddar and Clover spread.

Operating profits rose 19 per cent to £33.6m, on sales from continuing operations down 6 per cent to £703.9m. The fall largely reflected the November 1994 closure of the Whitland creamery in west Wales.

Consumer foods operating profits rose 14 per cent and food services 26 per cent.

Abacus shares fall on warning

By Christopher Price

A strong set of results from Abacus Polar, the newly-merged electronics components distributor, were marred yesterday by a warning that sales and profits for the second half would be adversely affected by falling product prices.

The warning, which sent the shares down 19p to 220p, came as the group reported a 45 per cent rise in pre-tax profits to £4.5m ($6.84m) for the six months to March 31.

The group, which was formed from the takeover of Polar by rival Abacus at the end of last year, saw turnover rise 48 per cent to £45.6m. Polar also contributed £600,000 to pre-tax profits.

Mr Brian Murdoch, chief executive, said the steep fall in semiconductor prices had only had a slight impact on the results as the component did not form an integral part of the group's supply lines.

The UK market, which accounts for three-quarters of revenues, saw "reasonably strong" trading in the half. However, prices had begun to weaken in some component areas, particularly those closely related to the semiconductor market.

Trading in Sweden had proved tougher, with the Promax subsidiary encountering falling product prices.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 30.05.96: Pool purchase price £/MWh	Final Prices for Trading on 02.05.96: Pool purchase price £/MWh	Pool selling price £/MWh
0030	8.91	9.00	9.00
0100	[illegible]	8.98	8.98
0130	8.90	9.03	9.03
0200	8.91	12.48	13.80
0230	8.91	12.48	13.80
0300	8.90	12.48	13.80
0330	8.90	12.48	13.80
0400	8.90	12.48	13.80
0430	8.90	12.48	13.80
0500	8.90	12.48	13.80
0530	8.91	12.18	13.50
0600	8.91	12.01	[illegible]
0630	8.91	9.02	9.02
0700	16.41	16.62	17.95
0730	16.62	22.62	23.98
0800	16.84	18.39	19.89
0830	17.18	29.42	31.07
0900	18.72	29.92	[illegible]
0930	20.02	29.86	31.61
1000	[illegible]	29.77	31.49
1030	20.02	24.88	26.58
1100	18.72	25.12	26.88
1130	20.03	44.36	48.31
1200	20.03	44.60	46.87
1230	20.03	44.21	46.20
1300	20.03	43.46	45.15
1330	20.02	24.17	25.89
1400	18.71	23.64	25.26
1430	17.16	22.75	24.14
1500	17.18	22.71	24.09
1530	17.18	22.72	24.10
1600	17.18	22.88	24.30
1630	17.18	[illegible]	24.63
1700	17.35	29.06	30.61
1730	17.35	[illegible]	34.06
1800	17.35	28.64	30.08
1830	17.34	22.64	23.99
1900	17.34	22.54	23.87
1930	17.34	17.66	18.98
2000	16.61	17.32	18.64
2030	16.61	17.32	18.64
2100	16.47	19.79	21.12
2130	16.90	42.46	[illegible]
2200	29.46	42.46	43.78
2230	29.46	42.46	43.78
2300	29.46	17.32	18.64
2330	16.41	[illegible]	17.94
2400	12.38	15.00	16.32

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.89/MWh becomes 1.689p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of [illegible]. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6789 between 8.30am and 5.15pm Monday to Friday.
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Waterford Foods reviews options

Waterford Foods may merge or enter a partnership with fellow Irish dairy groups as competition increases through the industry, its shareholders were told yesterday, writes Martin Brice.

Mr Matt Walsh, managing director, told the annual meeting he was reviewing options that included "merger, partnerships or other form of strategic alliance" to cope with an "era of tremendous change". This included the impact of Gatt and increased competition stemming from liberalisation of world trade and enlargement of the EU.

He said the group had in April cut by 3p a gallon the price it paid farmers for milk, and "it is likely that further adjustments would take place to bring milk prices into line with market returns".

His move follows a series of comments from Irish dairy groups suggesting a consolidation of the industry is necessary as they face falling prices, while farmers resist cuts in the price of their milk.

This dilemma is particularly difficult for co-operatives like Kerry Group and Dairygold. Waterford had tried to merge with Avonmore, its northern neighbour, but talks broke down in 1991.

Dairy group shares in Dublin responded positively to the news. Waterford Foods rose 2p to 78p, Golden Vale rose 3p to 63p, Avonmore was unchanged at 148p and Kerry Group rose 5p to 640p.

Mr Joe Gill, food analyst at ABN Amro Riada in Dublin, said 1994 had been a buoyant year for dairy produce, but the industry had been hit by an increase in supplies from New Zealand and a drop in demand from eastern Europe and the veal industry, which used to consume calf milk replacer but had been hit by BSE.

COMMODITIES AND AGRICULTURE

Chicago bulls run for cover as sun comes out

By Laurie Morse in Chicago

Sunshine on LaSalle Street helped push Chicago maize and wheat futures prices down the daily allowable limit yesterday as traders realised that the few clear days forecast for this week and next would be enough to allow farmers to re-enter their rain-soaked fields and finish planting their spring crops.

About 20 per cent of the US maize crop remained to be planted as of Sunday, according to a survey conducted by the US Department of Agriculture and released on Monday. Traders yesterday said farmers in crucial states like Indiana and Ohio could easily complete their sowings by the end of next week, and the surplus moisture received through the grain belt over the weekend could only speed germination of new-crop maize.

Weekend rains also broke an 8-month drought in parts of the Southwest plains, where winter wheat harvesting has just begun. Analysts said the moisture was too late to boost wheat yields, but it would encourage farmers to plow up failed wheat stands and plant milo, a feed grain that can be used in place of maize. "It now looks like we could get another million acres [of milo]," said Mr Jerry Gidel, grains analysts for Dean Witter in Chicago. "The market has just begun to factor that in."

The rains also revived pastures in Texas and Oklahoma, where cattle growers have been pinched for feed, and have been sending animals to slaughter. The US Department of Agriculture is also expected to release some 42m bushels of emergency food reserve maize to aid cattle ranchers.

The improved planting prospects, lagging maize export numbers and government aid to cattle ranchers have all taken the pressure off maize prices, analysts said, allowing futures for new-crop delivery to slip close to $4 a bushel. At last night's close the prompt July position was at $4.66½ a bushel while September delivery was quoted at $4.00½, both down 12 cents.

Wheat prices are also expected to staiblise at lower levels now that it appears spring wheat seedings are proceeding ahead of last year's pace across much of the Northern plains.

Interest in Icelandic aluminium plan revives

By Kenneth Gooding, Mining Correspondent

A plan to build a US$1bn aluminium smelter in Iceland to take advantage of that country's cheap hydro-electric power – which was shelved in the early 1990s when aluminium prices dived to historic lows – is now being reconsidered.

The three partners in the venture, Alumax of the US, Granges of Sweden and Hoogovens of the Netherlands, would make a decision by the first quarter of 1997, said Mr Allen Born, Alumax's chairman, yesterday.

Under consideration was a two-phase project that would involve 200,000 tonnes of annual capacity being built for production to begin between 2000 and 2002. A second 200,000-tonnes-a-year tranche could be added a year or so later, depending on market conditions.

The scheme would need the participation of the Icelandic government, which would have to expand the country's state-owned hydro-electric power capacity.

Mr Born said after a presentation to investors and analysts in London that it was not just the low-cost power that made the project potentially attractive to his company. It would also provide aluminium production within the European free trade area.

At present aluminium imports to European Union countries attract a 6 per cent tariff. Although Alumax currently avoided this tariff by swapping metal with European companies needing aluminium supplies in North America there was a limit to how much of this could be done as the US group's European business grew.

The possibility of a new smelter for Iceland comes only seven months after Alusuisse-Lonza, the Swiss group, announced it would expand its aluminium smelter there by 62,000 tonnes to 162,000 tonnes in 1997.

Mr Born made it clear, however, that the Icelandic smelter was just one of a number of options Alumax was considering.

The group might instead double the capacity of its 215,000 tonnes a year Lauralco smelter, a wholly-owned facility in Quebec, Canada. Quebec Hydro, which supplied the power, still had excess capacity because the expected expansion of the Alouette aluminium smelter had been shelved last year. Hoogovens was one of the five partners in the Alouette consortium and this had made it keen on the Iceland scheme, said Mr Born.

Alumax had also received approaches from promoters of aluminium smelter projects – still to be announced – in the Middle East and Latin America who wanted the US group's operational skills. These would also be considered but it was obvious that the political and currency risks were higher in those areas than in North America.

Mr Born said that, if the Icelandic project went ahead, Alumax would have 40 per cent and be operator, Hoogovens and Granges would each have 30 per cent. The technology would probably be that used at Alumax's Mt Holy smelter in the US where a mixture of Alcoa and Alumax expertise was employed.

Alumax is the world's fifth largest producer of primary aluminium and expects this year that its output will be close to total annual capacity of 671,400 tonnes. Mr Born said that the group preferred to be "long" of the metal, with 60 to 70 per cent of its output being used by its own plants and the rest sold to outside customers.

With aluminium demand growing by at least 2 per cent annually, the industry required a new smelter of average size every year, he pointed out. Global demand and supply were likely to be in balance this year but demand would outpace the available metal in 1997 and 1998, he suggested.

● One area of rapid growth was the use of aluminium by the car industry. Giving an example of this, Mr George Stoe, executive vice president, revealed Alumax was competing against Reynolds Metals, a rival US aluminium group, for a contract to supply 260m lb of aluminium extrusions and 60m lb of sheet over a ten-year period to General Motors, the world's biggest automotive company. GM had decided to switch some components on its Chevrolet CK pick-up truck from steel to aluminium to save weight. Some 363,000 of these pick-ups were produced last year.

● Alumax had cut the amount of production it hedged via options, said Mr Lawrence Frost, senior vice president, because the cost of options was too high. Only 2 per cent of the group's planned 1997 output had been hedged.

Batteries boost cobalt demand

By Kenneth Gooding

Rechargeable batteries used for electronic equipment such as portable telephones and laptop computers are jolting new life into the cobalt market.

Demand for cobalt could rise by more than 25 per cent by the year 2000, from 23,500 tonnes last year to 29,630 tonnes, according to Mr Bryce Clark, general manager of the Cobalt Development Institute. More than half of the extra demand, 3,300 tonnes out of the increase of 6,130 tonnes, would be provided by makers of high density batteries.

All three types of these batteries – nickel/cadmium; nickel/metal hydride; and lithium/ion – use substantial quantities of cobalt in various forms.

Mr Larry Dominey of OMG Inc told the Cobalt Conference, organised by the institute, that growth in high density battery sales "is dominated by the three "c" end uses: computers, camcorders and communications". He said analysts expected demand for these batteries to more than double from about 1bn units last year to nearly 2.5bn in 2003.

In his market analysis, Mr Bryce suggested that only one other sector would show strongly increasing demand for cobalt: catalysts for the oil and chemical industries. "There are reasons to suppose that further expansion is possible [in this sector] as oils need more cleaning and uses of Terylene expand," he said.

Nevertheless, the biggest use of cobalt would continue to be in superalloys and 80 per cent of these were employed in the manufacture of turbines.

Mr Bryce said there was little doubt that the industry could supply 30,000 tonnes of cobalt in 2000. Mr Thomas Leysen, general manager of Union Minière, pointed out that, not only would several thousand tonnes of cobalt become available as a by-product of new nickel production, but there were also "stand alone" cobalt projects. In future these would be "swing" producers, reducing output when prices were low, and this should help reduce cobalt price volatility.

The Cobalt Market

Segment	1995	2000	Future
Superalloys	26%	23.5%	steady
Hardfacing and other alloys	7%	6.1%	steady
Magnets – all types	10%	8.8%	steady
Hard materials	15%	13%	steady
Catalysts	10.2%	9.5%	growing
Colours	12%	10.6%	steady
Feedstuff, anodising			
Cu extraction, recording	6.5%	5.2%	steady
Batteries	3%	13.4%	growing
Adhesives and driers	10.3%	10%	steady
Total (tonnes)	23,500	29,630	

Source: The Cobalt Development Institute

Vietnam's mining law disappoints investors

Explorers still do not know if they have the right to mine what they find, writes Jeremy Grant

Foreign investors in Vietnam are used to waiting months for government decisions, but the five years Hanoi has taken to produce a mineral law has tested the patience of mining companies almost to breaking point. Now that it has emerged, many may be wondering if it was worth hanging on at all.

The document, passed in March by the legislative National Assembly, establishes the ground rules for foreigners interested in developing the country's mineral reserves, which are thought to be substantial. Geologists say the best prospects appear to be in the mountainous north, where there is gold, copper, lead and zinc.

But lawyers and industry experts warn that despite having gone through 14 drafts, the law still fails to deal squarely with the main question: whether foreigners have the right to mine what they find.

About 20 foreign companies, mostly Australian, have been looking at minerals in Vietnam for the past three years. Companies include CRA, North Star, Arcourt Resources, Newcrest Mining, Normandy Poseidon and Canexco of Canada.

Most have only scratched the surface, however, while waiting for the mining law to clarify the position on mineral ownership and other issues. Vietnam had signalled in the months preceding the law's passage that it would address these concerns.

As it is, The law says that foreign companies that already have an exploration permit, which some already possess, merely have the "special right" to apply for a mining permit. This allows the investor to mine, process and explore an area, and is valid for up to 30 years, extendable for another 20 years.

"This 'first right of refusal' may have disappointed some mining companies, which had hoped for an entrenched, exclusive right to mine," says Mr Nigel Russell, senior associate with Australian lawyers Phillips Fox in Hanoi.

There are other reasons to grumble, mining company officials say. One further cause for complaint is the giving of discretionary powers to the government to ban the export of certain minerals on a list to be issued "from time to time".

Although this appears to be aimed at encouraging the development of a domestic processing industry, it effectively means that no mining company can be sure that what it mines will not suddenly be subject to an export ban. "Miners will not want to see the government issuing a list every six months," says one Hanoi-based lawyer.

Other issues crucial to financing, such as tax and royalty levels, have been omitted after having been included in earlier drafts. The same goes for the maximum size of site Hanoi will allow a foreign mining company to exploit.

Yet some mining companies are not discouraged, particularly those that have already staked out areas they believe contain commercially viable deposits. One such is Golden Tiger Resources, a Canadian-Australian concern that includes a gold mine in Thai Nguyen province, north of Hanoi, in its portfolio.

"The main concern was that if you found something, it would be put up for auction. But it's very clear in my mind that this is not the intention," says Mr Rupert Crowe, managing director.

Some mining companies feel that the law is deliberately vague and hope that implementing rules – which normally follow any piece of legislation in Vietnam – will clarify matters.

In their view, the authorities were reluctant to enshrine too many foreign rights in the law just months before a politically-sensitive communist party congress, scheduled for June, where foreign investment will itself come under scrutiny.

This would account for emphasis in the law of the "leading role" of Vietnamese state-owned companies in the sector, although it is not clear whether this means foreign companies must enter into joint ventures with them.

"As so often, it's a question of national sovereignty and self-sufficiency in natural resources," says the foreign lawyer.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1556.5-57.5	1588-89
Previous	1552-53	1584-84.5
High/low	1548	1598/1580
AM Official	1548-49	1580-80.5
Kerb close		1596.5-7.5
Open int.	225,723	
Total daily turnover	34,271	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1285-95	1325-30
Previous	1305-10	1343-44
High/low		1325/1323
AM Official	1280-85	1320-21
Kerb close		1320-30
Open int.	4,787	
Total daily turnover	1,396	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	825.5-26.5	829-30
Previous	827-28	830-31
High/low		835/824
AM Official	825-26	827.5-28.0
Kerb close		833-35
Open int.	36,833	
Total daily turnover	6,243	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	8025-35	8135-40
Previous	7865-75	7975-80
High/low	7935/7910	8155/7990
AM Official	7910-15	8010-15
Kerb close		8140/50
Open int.	43,373	
Total daily turnover	13,038	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6215-25	6255-60
Previous	6205-15	6250-60
High/low	6205	6300/6230
AM Official	6200-210	6245-50
Kerb close	[illegible]	[illegible]
Open int.	[illegible]	
Total daily turnover	[illegible]	

■ ZINC, special high grade ($ per tonne)

■ COPPER, grade A ($ per tonne)

■ LME AM Official £/$ rate: 1.5164

■ HIGH GRADE COPPER (COMEX)

PRECIOUS METALS

■ LONDON BULLION MARKET

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	391.2	-0.2	391.0	391.0	20	10
Jun	391.2	-0.4	392.4	391.0	23,794	20,003
Jul	392.7	-0.4	[illegible]	[illegible]	[illegible]	[illegible]

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

■ CRUDE OIL IPE ($/barrel)

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

■ GAS OIL IPE ($/tonne)

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu)

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls)

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	130.25	-1.00	131.00	130.50	28	1,561
Sep	113.00	-0.80	113.80	113.00	30	367
Nov	114.75	-0.90	115.25	114.75	202	3,082

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

■ BARLEY LCE (£ per tonne)

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

■ SOYABEAN MEAL CBT (100 tons; $/ton)

■ POTATOES LCE (£/tonne)

■ FREIGHT (BIFFEX) LCE ($10/index point)

FUTURES DATA

All futures data supplied by CMS.

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	1075	-6	1090	1080	12	31
Jul	1101	-7	1103	1093	967	20,851
Sep	1121	-7	1123	1113	[illegible]	[illegible]

■ COCOA CSCE (10 tonnes; $/tonnes)

■ COCOA (ICCO) (SDR's/tonne)

■ COFFEE LCE ($/tonne)

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

■ COFFEE (ICO) (US cents/pound)

■ WHITE SUGAR LCE ($/tonne)

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

■ COTTON NYCE (50,000lbs; cents/lbs)

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	60.025	+0.250	60.900	59.800	6,616	26,114
Aug	63.925	+0.750	63.975	62.950	5,146	30,236
Oct	64.850	+0.225	64.900	64.400	1,692	21,361

■ LIVE HOGS CME (40,000lbs; cents/lbs)

■ PORK BELLIES CME (40,000lbs; cents/lbs)

LONDON TRADED OPTIONS

■ ALUMINIUM (99.7%) LME

■ COPPER (Grade A) LME

■ COFFEE LCE

■ COCOA LCE

■ BRENT CRUDE IPE

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

■ NATURAL GAS Pence/therm

■ OTHER

VOLUME DATA

INDICES

■ REUTERS (Base: 18/9/31=100)

■ CRB Futures (Base: 1967=100)

■ GSCI Spot (Base: 1970=100)

Nuts and Seeds

CROSSWORD

No.9,081 Set by ADAMANT

ACROSS

1 Wine left in car – and it's French! (6)
4 Does each manoeuvre on the way back (6)
8 And rule out clean money (7)
9 Wave and run into the vessel (7)
11 In the Creation it involves verse speaking (10)
12 Before the stake (4)
13 Some of what was said was very musical (5)
14 Not old enough to graduate – true, unfortunately, although I'm first (8)
16 Make believe the centre has collapsed in the outskirts of Penge (8)
18 Easy to understand how cover protected Unionist caught inside (5)
20 No way a visitor can have malaria (4)
21 Unexpected quality might twice send us distraught (10)
23 Give entrance pass to Lords (7)
24 A game to cut short (7)
25 Join forces for line-out on the way (6)
26 Almost starting, not before time (6)

DOWN

1 Finish lawsuit with second defendant being imprisoned (5)
2 Members of the family let loose in a second (7)
3 Lifting the side of the building (9)
5 One who takes flight could have been brave man before noon (5)
6 I am so unyielding! (7)
7 Left damaged tree in out-house where it is protected (9)
10 Shares the interest (9)
13 The conceit of having cargo near to transfer (9)
15 Everyone in the Middle East can use plastic (9)
17 Work out reference to clover (7)
19 Girl that is in credit is showing more sense (7)
21 Seasons for workers in the main (5)
22 Two good dips in the sauce and it's sloppy (5)

Solution 9,080

Bank's gilt auction goes better than expected

By Samer Iskandar in London and Maggie Urry in New York

European bond markets continued to trade in a tight range, with high-yielding markets again outperforming bunds. The dollar remained firm against other currencies, which favoured peripheral markets. Meanwhile, the US market drifted quietly lower on supply fears.

■ UK gilts drifted lower, ignoring sterling's firmness on the *foreign exchange markets* and the better-than-expected outcome of the Bank of England's gilt auction. Liffe's June long gilt future settled at 106¼, down $\frac{3}{32}$. Bids totalled more than twice the amount of a £3bn auction of 8 per cent bonds due 2021. The price tail, the difference between the average price and the lowest accepted bid, was only $\frac{3}{32}$, compared with $\frac{11}{32}$ at the previous auction in February.

Mr Kevin Adams, a gilt strategist at BZW, said market conditions were favourable. The bonds looked cheap both in absolute terms (the yield was 20 basis points higher than at the previous auction) and relative terms – the paper was around 7 basis points cheaper relative to the yield curve than in February.

However, he is concerned by forthcoming supply. He said the government had to raise £38.5bn before the end of the fiscal year. The 10-year yield spread of gilts over bunds stood at 177 basis points yesterday. Mr Adams said gilts had been supported by the rally of the high-yielding markets – notably Italy. He warned of a possible correction in gilt yields once this support is withdrawn, to 185 or 190 basis points over German yields.

GOVERNMENT BONDS

■ German bunds closed slightly higher in moderate volume. Liffe's June bund *future* closed at 96.96, up 0.03. Traders are awaiting today's Bundesbank council meeting, although few expect an easing in the repo rate.

■ French bonds traded quietly, marginally outperforming bunds. Matif's June notional future settled at 123.80, up 0.08. In the cash market, the 7¼ per cent OAT due 2006 closed at 105.80, up 0.12. The 10-year yield spread over bunds narrowed by 1 basis point, to 2. Analysts do not expect this spread to cross into negative territory again in the near future, unless OATs get very strong support from a weakening D-Mark.

■ Italian bonds had their fourth consecutive bullish session, supported by political optimism and a slight decline in wage inflation to 3.8 per cent (year on year) in April, from 3.9 per cent in March. Liffe's June future on 10-year BTPs closed up 0.35 at 116.56.

In the cash market, the 10-year benchmark BTP closed at 101.50, up 0.24, its yield spread over the equivalent bund narrowing by 5 basis points to 305.

■ Spanish bonds also had a positive session. The June 10-year bono future closed at 99.78, up 0.11.

■ The US Treasury bond market drifted lower yesterday morning ahead of the early afternoon auction of two-year notes. The Treasury was selling $18.75bn of the notes, and traders predicted good demand for the paper around current levels. The sale will be followed today by a $12.5bn auction of five-year notes, although this is not expected to go as well.

Near midday, the existing two-year note was trading down $\frac{1}{32}$ at 99$\frac{31}{32}$, yielding 6.029 per cent. Meanwhile, the benchmark 30-year Treasury was down $\frac{1}{8}$ at 89½ to yield 6.861 per cent. The June 30-year bond future was unchanged at 109$\frac{13}{32}$.

In the absence of any new economic statistics, traders pondered the outlook for inflation and interest rates. Mr Robert Parry, president of the San Francisco Federal Reserve Bank, and a non-voting member of the Federal Reserve's open market committee, warned in an interview that the economy was growing faster than he had expected three months ago. He said with little slack in the economy, the "inflationary risks are perhaps a little higher".

Novel E European derivatives product

By Vincent Boland in Prague

A new derivatives product that will allow investors access to the Czech, Hungarian and Polish stock markets without buying shares directly was unveiled yesterday, with the launch of warrants on indices of selected stocks from those markets.

Bankers Trust, the US investment bank, launched "index return certificates" based on indices for the three markets compiled by the International Finance Corporation, the private sector arm of the World Bank.

These are indices comprised of the shares of leading companies in which international investors are able to invest and which meet certain criteria for size and liquidity. The IFC Investable Indices for the markets are based on shares of companies such as CEZ and SPT Telecom in the Czech Republic, Fotex, OTP and MOL in Hungary, and Elektrim in Poland.

They are the first such certificates for these markets and the investment bank said they may be the first for any market using the IFC Investable Indices. The issues are aimed at retail investors seeking access to central Europe's emerging markets.

Bankers Trust said it had issued 42m Czech Republic Index Return Certificates, 12m for Hungary and 50,000 for Poland. Each certificate controls one-tenth of the index.

The number of certificates issued is based on each market's potential for appreciation. The Czech market has lagged behind bourses in Budapest and Warsaw since the beginning of the year and has been in the doldrums as investors await the outcome of this weekend's general election.

The certificates are denominated in D-Marks based on current exchange rates. Bankers Trust said they would be listed on the Freiverkehr markets in Frankfurt, Berlin, Düsseldorf, Hamburg and Stuttgart, and that it would make a market in the certificates.

Ford Motor Credit's $750m issue leads busy day

By Conner Middelmann

The primary eurobond market had another busy session yesterday, absorbing a slew of US dollar deals and offerings in a wide range of other currencies.

Ford Motor Credit's $750m five-year "Euro-Asian" bond was the largest deal of the day. While some traders said it had a slow start, Lehman Brothers, joint leads with Merrill Lynch, said its portion of the issue had been heavily oversubscribed and was 35 to 40 per cent placed in Asia. The bonds are listed in Hong Kong and Singapore.

A long-awaited $500m five-year offering for the Council of Europe was similarly successful, meeting strong demand from institutional investors around Europe and with healthy demand expected in Asia, according to SBC Warburg, joint bookrunner with Merrill Lynch.

The bonds will be priced today to yield 16 basis points over Treasuries – an attractive 8-basis-point pick-up over comparable World Bank bonds and 2 basis points over Canada's recent five-year issue.

This benchmark issue represents an important departure for the Council of Europe, which in recent years has been issuing mostly small, shorter-dated deals targeted at European retail investors.

The Commonwealth Bank of Australia issued $400m of 10-year subordinated bonds, but unlike two such deals launched on Tuesday for Banque Nationale de Paris and ING Bank, CBA's paper was structured like senior bonds, yielding a mere 38 basis points over Treasuries. This is likely to be CBA's last government-backed deal, as it is being privatised. The deal saw strong demand from the UK and continental Europe, according to bookrunner Morgan Stanley.

INTERNATIONAL BONDS

Elsewhere, PNOC Energy Development issued the most tightly-priced Philippine deal to date, $150m of five-year bonds yielding 170 basis points, also via Morgan Stanley.

In sterling, Brazil's £100m of three-year bonds met a warm reception despite their relatively tight spread of 250 basis points over gilts.

"The pricing reflects the dramatic improvement of emerging-market spreads in general and Brazil's standing in particular," an official at arranger HSBC Markets said. Last July, Brazil issued DM1bn of three-year bonds at a spread of 385 over bunds.

Also in sterling, Bayerische Hypo launched £150m of long four-year bonds aimed largely at retail investors, especially in Switzerland, where sterling's recent appreciation against the Swiss franc sparked retail buying, lead manager BZW said.

The Portuguese Navigator market saw its longest bond to date, a Esc10bn 10-year bond for the European Investment Bank. In anticipation of the June 20 launch of a 10-year Portuguese bond futures contract, "we have seen increased customer interest in 10-year escudo bonds," said a dealer at UBS, joint lead with Banco Finantia.

In the D-Mark sector, DSL Bank issued DM500m of five-year bonds aimed at institutional investors, rather than its usual retail base. It is the first eurobond to have been priced off the new five-year government benchmark note, the Bobl 116, lead manager Goldman Sachs said.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Ford Motor Credit Co	750	6.875	99.431R	Jun 2001	0.30R	-46(WI 5yr)	Merrill Lynch International
Council of Europe	500	(a)	(a)R	Jun 2001	0.25R	+16(WI 5yr)	Merrill/SBC Warburg
C'wealth Bank of Australia(l)	400	7.125	99.563R	Jul 2006	0.375R	+38(6⅞%-06)	Morgan Stanley & Co Intl
Beta Finance Corp(l)	200	6.375	99.85R	Jun 1999	0.1875R	+12(6⅜%-99)	SBC Warburg
PNOC Energy Dev'ment Corp	150	(a)#	(a)R	Dec 2001	0.625R	+170(WI 5yr)	Morgan Stanley & Co Intl
Hewlett Packard Finance Co(s)	150	6.25	100.00R	Dec 1998	0.15R	+11(WI 5yr)	Citibank International
D-MARKS							
DSL Finance	500	5.375	99.73R	Jun 2001	0.25R	+30(6¾%-01)	Goldman Sachs
Bacob Overseas‡	200	(b)	99.953R	Jun 2000	0.15R	-	Banque Paribas Deutschland
YEN							
Republic of Finland(c)#	12bn	6.60	99.98	Jun 1998	1.50	-	Daiwa Europe
SWISS FRANCS							
Crédit Local de France(s)	100	4.25	103.25	Dec 2001	2.00	-	DKB Schweiz/Merrill Lynch
Merrill Lynch & Co(s)	100	4.00	101.50	Dec 2000	1.75	-	Merrill Lynch Capital Mkts
STERLING							
Bayerische Hypo(s)	150	7.625	99.538R	Dec 2000	0.25R	+20(8%-00)	Barclays de Zoete Wedd
Federative Republic of Brazil	100	9.75	99.719R	Jun 1999	0.70R	+250(6%-99)	HSBC Markets
GUILDERS							
Dresdner Finance	300	5.50	99.12R	Jun 2002	0.275R	+10.1(6%-02)	ING Barings
CANADIAN DOLLARS							
LB Schleswig-Holstein(s)	100	6.375	99.324R	Dec 1999	0.20R	+8(7¾%-99)	Hambros Bank
AUSTRALIAN DOLLARS							
National Australia Bank	100	8.75	101.438	Jun 2000	1.75	-	ABN Amro Hoare Govett
ESCUDOS							
European Investment Bank	10bn	8.50	100.738	Jun 2006	2.00	-	Banco Finantia/UBS

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. #Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Priced today. b) 3-mth Libor +$\frac{1}{8}$%. c) Redemption in A$. l) Long 1st coupon. s) Short 1st coupon.

UBS wins mandate for Croatian bank placement

By Gavin Gray in Zagreb

Union Bank of Switzerland was mandated yesterday to arrange an international equity placement for Zagrebacka Banka, the second-largest bank in Croatia. The placement will be for up to 10 per cent of the bank's share capital, which has a total book value of DM289m, and is expected to be completed by mid-July.

Demand for Croatian shares has been high this year because the economy is beginning to grow rapidly after the Dayton peace accord. The first international equity offering for a Croatian company, drugs group Pliva, was 20 times over-subscribed and its share price has nearly doubled since its listing on the London stock exchange in April.

Zagrebacka Banka hopes that its placement will achieve a fair price for its stock, which trades at a 40 cent discount to book value on the illiquid domestic market. Some 60 per cent of the shares are held by private investors.

The bank operates Croatia's largest retail network and has withstood the economic downturn that followed the war in 1991. It recorded a profit of $30m in 1994, the last year for which accounts are available. Assets were $2.5bn and shareholders' funds were $332m.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	02/06	107.7450	-0.070	8.82	8.77	8.97
Austria		6.125	02/06	98.0300	+0.090	6.40	6.46	6.42
Belgium		7.000	05/06	102.4000	+0.020	6.66	6.68	6.66
Canada *		8.750	12/05	108.0100	-0.080	7.56	7.66	7.71
Denmark		8.000	03/06	104.1600	-0.080	7.38	7.40	7.22
France	BTAN	5.750	03/01	101.1250	+0.120	5.45	5.55	5.64
	OAT	7.250	04/06	105.8000	+0.120	6.44	6.47	6.47
Germany Bund		6.250	04/06	98.7500	-0.030	6.42	6.45	6.38
Ireland		8.000	08/06	102.8800	-0.090	7.57	7.59	7.64
Italy		9.500	02/06	101.5000	+0.240	9.28†	9.40	10.01
Japan	No 140	6.600	06/01	119.4515	-0.010	2.30	2.41	2.40
	No 182	3.000	09/05	[illegible]	+0.110	3.19	3.25	3.30
Netherlands		6.000	01/06	97.8400	+0.080	6.30	6.38	6.32
Portugal		11.875	02/05	117.9200	+0.180	8.88	8.94	8.98
Spain		8.800	04/06	98.5000	+0.110	9.02	9.15	9.13
Sweden		6.000	02/05	85.6194	+0.110	[illegible]	8.48	8.34
UK Gilts		8.000	12/00	102-03	-	7.39	7.42	7.43
		7.500	12/06	96-02	-4/32	8.06	[illegible]	8.02
		9.000	10/08	105-10	-3/32	8.18	8.17	8.11
US Treasury *		6.875	05/06	101-16	-3/32	6.67	[illegible]	6.59
		6.000	02/26	88-08	-4/32	6.88	6.87	6.80
ECU (French Govt)		7.500	04/05	104.0400	-0.050	6.87	6.91	6.85

London closing. *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest / Treasury Bills and Bond Yields

Prime rate	8¼	One month	-	Two year	6.05
Broker loan rate	7	Two month	-	Three year	6.22
Fed funds	5¼	Three month	5.17	Five year	6.44
Fed funds at intervention	-	Six month	5.34	10-year	6.67
		One year	5.63	30-year	6.86

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	123.74	123.80	+0.08	123.82	123.66	81,690	154,669
Sep	122.22	122.26	+0.08	122.26	122.14	6,456	18,653
Dec	121.00	121.08	+0.08	121.08	120.94	1,180	8,614

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jun	Calls Jul	Calls Sep	Puts Jun	Puts Jul	Puts Sep
120	-	-	-	-	0.10	0.48
121	-	-	-	-	0.24	0.70
122	-	0.76	1.30	-	0.52	1.06
123	-	0.30	0.79	0.01	-	-
124	0.09	0.09	0.44	0.27	-	-

Est. vol. total, Calls 16,507 Puts 11,049. Previous day's open int., Calls 136,552 Puts 192,998.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.92	96.96	+0.03	97.00	96.83	78610	125556
Sep	96.04	96.08	+0.02	96.12	95.95	13647	68499

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jul	Calls Aug	Calls Sep	Calls Dec	Puts Jul	Puts Aug	Puts Sep	Puts Dec
9600	0.61	0.81	1.01	0.99	0.43	0.72	0.83	1.76
9650	0.28	0.57	0.76	0.79	0.70	0.98	1.18	2.06
9700	0.14	0.38	0.58	0.62	1.06	1.30	1.47	2.39

Est. vol. total, Calls 5861 Puts 5410. Previous day's open int., Calls 103868 Puts 100339

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	116.40	116.56	+0.35	116.59	116.20	38368	51183
Sep	115.87	115.98	+0.38	116.00	115.60	8183	10980

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Sep	Calls Dec	Puts Sep	Puts Dec
11550	1.86	2.46	1.49	2.60
11600	1.69	2.23	1.73	2.87
11650	1.44	2.01	1.98	3.15

Est. vol. total, Calls 3613 Puts 1771. Previous day's open int., Calls 28670 Puts 23425

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	99.77	99.78	-	99.84	99.48	54,721	61,105
Sep	99.04	99.23	-	99.15	98.98	786	2,345

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	106-12	106-08	-0-03	106-12	106-00	105118	76982
Sep	105-13	105-10	-0-03	105-13	105-03	37800	62551

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Jul	Calls Aug	Calls Sep	Calls Dec	Puts Jul	Puts Aug	Puts Sep	Puts Dec
105	0-59	1-22	1-41	1-61	0-39	1-02	1-21	2-41
106	0-29	0-58	1-10	1-35	1-09	1-36	1-54	3-15
107	0-12	0-34	0-49	1-13	1-56	2-14	2-29	3-57

Est. vol. total, Calls 1367 Puts 566. Previous day's open int., Calls 12404 Puts 10150

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	91.46	91.42	-0.02	91.46	91.34	4,529	6,707
Sep	90.86	90.88	-0.02	90.94	90.84	2,138	866

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	109-27	109-23	-0-04	110-12	109-22	180,807	301,269
Sep	109-10	109-05	-0-05	109-26	109-05	29,654	107,122
Dec	108-22	108-26	+0-01	109-09	108-25	258	7,287

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol.	Open int.
Jun	119.74			119.79	119.65	640	0
Sep	118.64			118.71	118.49	2778	0

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Wed May 29	Day's change %	Tue May 28	Accrued interest	xd adj. ytd		Low coupon yield May 29	May 28	Yr. ago	Medium coupon yield May 29	May 28	Yr. ago	High coupon yield May 29	May 28	Yr. ago
1 Up to 5 years (22)	121.14	-0.01	121.84	2.02	4.26	5 yrs	7.40	7.48	7.74	7.55	7.62	7.78	7.64	7.62	7.81
2 5-15 years (18)	144.82	-0.12	145.84	1.88	5.14	15 yrs	8.24	8.23	7.96	8.26	8.24	7.97	8.34	8.33	8.10
3 Over 15 years (9)	159.04	0.05	160.91	2.58	5.43	20 yrs	8.32	8.31	7.98	8.32	8.31	7.98	8.36	8.37	8.07
4 Irredeemables (6)	179.95	-0.04	180.02	1.14	6.12	Irred.†	8.37	8.36	7.89						
5 All stocks (55)	140.34	-0.05	141.39	2.06	4.81										

Index-linked	Wed May 29	Day's change %	Tue May 28	Accrued interest	xd adj. ytd		Inflation 5% May 29	May 28	Yr. ago	Inflation 10% May 29	May 28	Yr. ago
6 Up to 5 years (1)	196.57	0.02	196.53	0.61	4.43	Up to 5 yrs	2.83	2.83	3.18	1.37	1.38	1.81
7 Over 5 years (11)	185.87	-0.14	186.13	1.27	1.81	Over 5 yrs	3.63	3.61	3.66	3.62	3.60	3.37
8 All stocks (12)	185.99	-0.14	186.24	1.26	1.86							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	May 29	May 28	May 24	May 23	May 22	Yr ago	High*	Low*
Govt. Secs. (UK)	92.24	92.26	92.36	92.35	92.29	94.31	96.34	91.59
Fixed Interest	111.75	111.86	111.91	112.09	112.10	113.68	115.23	110.74

* for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974

GILT EDGED ACTIVITY INDICES

	May 28	May 24	May 23	May 22	May 21
Gilt Edged bargains	78.0	87.9	88.0	92.7	128.1
5-day average	94.2	97.3	96.5	98.2	103.5

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on May 29

[illegible]

UK GILTS PRICES

[illegible]

CURRENCIES AND MONEY

MARKETS REPORT

Dollar firmer as markets wait on Bundesbank

By Philip Gawith

The dollar yesterday continued its slow upward march against the yen and the D-Mark, but lacked the momentum to break through important technical resistance levels.

Markets are still searching for the catalyst that will drive it above DM1.5555, a 50 per cent retracement of the 1994-5 decline, and Y110.50, a 38.2 per cent retracement of the five year downtrend between 1990 and 1995.

After nearly breaking above DM1.55 and Y109, the dollar retreated to finish in London at DM1.5453, from DM1.5483, and at Y108.745, from Y108.625. The other notable move came from the Italian lira which crept towards the L1,000 level against the D-Mark. It reached L1,003.61, before retreating to close unchanged at L1,007 amid reports that the Bank of Italy was buying D-Marks.

Expectations that the Bundesbank might today move to cut the repo rate were heightened by its aggressive action in the money markets, including the use, for the first time in more than two years, of currency swaps. Some observers saw this as a prelude to cutting rates.

Sterling reached a 15 month high of DM2.3485 against the D-Mark, helped by the firmer dollar and strong foreign buying at the UK government bond auction. It later closed at DM2.3477. It was also firmer against the dollar at $1.5193, from $1.5124.

■ In 1994/5 the dollar received a bloody nose in the currency markets. For the past year, it has been the yen that has been in sharp retreat, with the D-Mark joining it in recent months too. Now, it seems, it is the turn of the Swiss franc, which many economists consider the most overvalued of the world's leading currencies.

Since touching SFr0.8052 at the beginning of April, the Swiss franc has rallied by more than two per cent against the D-Mark to around SFr0.823. Analysts at UBS in London believe this to be the first stage of a move towards SFr0.835 in twelve months. Others are much more bearish – Goldman Sachs are forecasting SFr0.88 in six months.

Mr Paul Lambert, currency economist at UBS in Zurich, says the main factor behind the correction in the franc has been US hedge funds funding purchases of US treasuries through the franc – that is, borrowing francs, and then selling them.

This trade, he argues, has probably now played itself out, but two other factors should continue the trend: a correction to the recent sharp rise in Swiss money market interest rates, and increased foreign currency investments by Swiss investors, diversifying out of under-performing Swiss bonds.

The correction UBS is predicting is fairly modest in the context of the franc's 17 per cent appreciation relative to the D-Mark from mid-February 1993 to a 19-year high of SFr0.7982 last September.

Analysts are confident that the Swiss National Bank will be happy to encourage an easier economic policy in order to stimulate the economy. UBS estimate that the Swiss economy is heading for its sixth consecutive year of below potential growth.

■ The value of the lira has also been occupying the market as speculation about Italy's re-entry into the ERM has risen. Mr Marco Pianelli, economist at Nomura in London, argues that "a central parity to the D-Mark of L1,000, which is a nice round number and just about where the lira is trading now, would be an acceptable rate to the Germans and French, although less so for Italian industrialists."

He believes, though, that this rate would still offer Italy a small margin of competitiveness. By some measures of purchasing power parity, the lira is worth around L900 against the D-Mark.

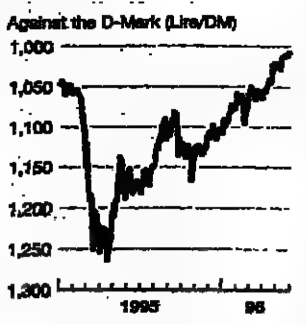
■ Sterling is the beneficiary of a benign conjuncture in the currency markets – ironically, at a time when the government's position looks ever more bleak.

On the one hand, it is profiting from the rally in the dollar. On the other, as economists at Chase in London argue, it may be the beneficiary of almost any EMU scenario. "If EMU goes ahead with relaxed convergence criteria, sterling is likely to benefit as a safe haven if it stays out, while if it joins such a monetary union, it could be expected to be at a somewhat higher central rate."

It may also be that the market is both discounting, and stating a preference for, a Labour election victory.

Lira

Against the D-Mark (Lire/DM)



Source: FT Extel

■ Pound in New York

May 29	Latest	Prev. close
£ spot	1.5245	1.5135
1 mth	1.5238	1.5127
3 mth	1.5222	1.5112
1 yr	1.5175	1.5062

■ OTHER CURRENCIES

May 29	£	$
Czech Rp	42.6130 - 42.6534	28.0570 - 28.0670
Hungary	227.507 - 227.533	149.850 - 149.920
Iran	4559.16 - 4556.40	3000.00 - 3000.00
Kuwait	0.4558 - 0.4564	0.3001 - 0.3003
Poland	4.1205 - 4.1267	2.7130 - 2.7155
Russia	7635.01 - 7644.09	5027.00 - 5030.00
U.A.E.	5.5770 - 5.5819	3.6720 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

WORLD INTEREST RATES

CROSS RATES AND DERIVATIVES

UK INTEREST RATES

BASE LENDING RATES

EMS EUROPEAN CURRENCY UNIT RATES

KOREA LIBERALISATION FUND LIMITED TO THE HOLDERS OF WARRANT IDRS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Allied Domecq	[illegible]	488xd	+4	598	478½	5,082	6.0	18.8
Bulmer (HP)		590	—	625	437	398.2	2.7	18.2
Burn St Dist		115	—	148	101	68.2	5.4	24.8
Glenmorangie A		645	—	680	600	85.4	2.4	Φ
Grand Met		446	+5	467	374	9,357	4.3	18.7
Guinness		476	+6	538	435	9,167	3.9	15.5
Highland		373xd	+1	406	315	497.2	2.7	17.4
Kirin Y		824¼	−1¾	879¼	621	8,679	0.7	32.4
Macallan-Glen		168	—	217	150	167.2	1.1	34.5
Matthew Clark		795	+8	795	580	702.9	3.5	–
Merrydown		124	—	140	88	13.5	2.0	–
Seagram $		£22[illegible]	[illegible]	£25[illegible]	£17[illegible]	6,325	1.2	–

BANKS, MERCHANT

	Notes	Price	+ or -	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Barings 8pc Cm 2nd Pf		50½	—	80½	50½	8.31	19.8	–
Cazar Allen		403	—	525	403	131.4	9.3	6.7
Close Bros		393	—	392	271½	437.4	3.1	16.1
Gerrard & Nat		370	—	472	370	180.9	7.6	11.9
Hambros		235	−1	252	180	417.7	4.0	–
7½pc Cv Pf		113	—	117	94½	145.8	8.3	–
King & Shaxson		173	−1	175	110	45.7	6.5	13.4
Leopold J		453	—	463	353	34.0	5.2	15.6
Rea Brothers		58	—	67	44	28.0	2.2	27.5
Schroders		1348	+10	1478	1069	2,835	1.5	18.8
N/V		1069	+26	1180	890	470.4	1.9	15.0
Singer & Fried		118xd	−1	118	90	217.2	4.5	9.1
8½pc Cv Ln 09/14		£134½	—	£137	£1[illegible]	41.2	6.3	–
Union		99	−2	121	71	25.3	3.8	Φ
Windrest		303	—	305	225	25.1	4.8	17.3

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

FOOD PRODUCERS - Cont.

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

Approved by the Inland Revenue

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

Approved by the Inland Revenue

هكذا من الأصل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

[illegible]

OTHER INVESTMENT TRUSTS

[illegible]

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LEISURE & HOTELS - Cont.

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

OTHER FINANCIAL - Cont.

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PHARMACEUTICALS - Cont.

[illegible]

PROPERTY

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system
- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Rule 4.2(a) Irish incorporated non-listed companies.
- ‖ Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield: p/e based on earnings updated by latest interim statement.
- ♦ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for 1996-97
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
N Dividend is paid in whole or part as a

FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion

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Call 0171 873 4378 for more information on FT Cityline.

For readers phoning from outside UK, please dial +44 in place of the first 0.

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FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

LUXEMBOURG (REGULATED)(**)

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FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Credis Investment Funds - Contd.

Morgan Stanley Sicav

Murray Universal, Sicav

NICAM Asia Pacific Umbrella Fund

Allied Dunbar International Assce Ltd (z)

CMI Insurance Co Ltd

Royal Life International

Royal Skandia Life Assurance Ltd (z)

Camco Investment Management Ltd

Capital International

Cathay Investment Fund Limited

Cazenove Funds Management Ltd

Chameleon Funds Limited

Chesapeake Capital Corporation

Chescor Indian Investment Company

The China Fund

[illegible]

OTHER OFFSHORE FUNDS

[illegible]

OFFSHORE INSURANCES

[illegible]

The Vietnam Fund Limited

Lloyds Bank Fund Managers (Guernsey) Ltd

NAV Fully Paid Apr 30	$11.20		—	—

Wells Fargo U.S. IT Fund

Wells Fargo & Sm (1)	$15.52		—	—
Wells Fargo & Sm (2)	$17.98		—	—

Worldwide Limited

NAV Apr 30	$84.44		—	—

Xiphias International Investment Fd Ltd

[illegible]	$10.22		—	—
[illegible]	[illegible]		—	—

Zanett Lombardier Ltd

NAV May 1	$182.34		—	—

Zulauf Investment Management AG

Zulauf Europe Ltd NAV May 24	DM107.534		—	—

Zweig-DiMenna International Limited

NAV Apr 30	$14677		—	—

MANAGED FUNDS NOTES

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % allow for all buying expenses. Prices of certain older insurance linked plans subject to capital gains tax on sales.
(**) Funds not SIB recognised. The regulatory authorities for these funds are:
Bermuda - Bermuda Monetary Authority
Guernsey - Financial Services Commission
Ireland - Central Bank of Ireland
Isle of Man - Financial Supervision Commission
Jersey - Financial Services Department
Luxembourg - Institut Monetaire Luxembourgeois.
Initial charge - Charge made on sale of units.
Selling price - Bid or redemption price.
Buying price - Offer or issue price.
Time - The time shown alongside the fund manager's name is the time of the fund's valuation point unless indicated by one of the following symbols:
(✦) - 0001 to 1100 hours
(●) - 1101 to 1400 hours
(▲) - 1401 to 1700 hours
(#) - 1701 to midnight
E - Exit charge on sale of units.
C - Manager's periodic charge deducted from capital.
H - Historic pricing F - Forward pricing
b - Distribution free of UK taxes.
p - Periodic premium insurance plans.
s - Single premium insurance.
u - Designated as a UCITS (Undertakings for Collective Investment in Transferable Securities).
x - Offered price includes all expenses except agent's commission.
z - Previous day's price.
G - Guernsey gross.
♦ - Yield before Jersey tax.
† - Ex-subdivision. xd - Ex-dividend.
‡ - Only available to charitable bodies
◆ - Yield column shows annualised rates of NAV increase.

The fund prices on these pages are also available on the Internet at www.FT.com

LONDON STOCK EXCHANGE

MARKET REPORT

Footsie edges higher as bid battle develops

By Philip Coggan, Markets Editor

More bid activity in the utilities sector and a reasonably successful outcome to the £3bn gilt auction helped the UK stock market move ahead again yesterday. But trading continued to be subdued.

Southern Electric entered the takeover battle for Southern Water with a £1.6bn offer, which topped the previous day's bid, now worth £1.54bn, from Scottish Power.

The battle provoked further interest in the water sector, as investors speculated on the next potential bid candidates. Water provided the top four FT-SE Mid-250 index performers and three of the top six in the FT-SE 100 index.

With British Gas and BT also performing well, the utilities area held the market up in the face of Tuesday's overnight weakness on Wall Street, where the Dow Jones Industrial Average dropped 53 points. The Dow's fall meant the Footsie started the day on a bad note, falling 8.5 points early on, but the index quickly recovered.

One early worry was relieved in the morning when the £3bn long-dated gilt auction proved reasonably successful, with cover of around two times. Nevertheless, gilts ended slightly down on the day, with the benchmark 10-year issue an eighth of a point lower.

There was some modest weakness on Wall Street in the afternoon, where the Dow was 4 points lower by the close of London trading. But the Footsie held up well, backed by a strong futures market and finished the day around its high at 3,775.8, up 15.5. The Mid-250 gained 10.4 points to 4,514.8.

In spite of the stimulus of the Southern Water bids, the UK market seems to lack a sense of direction. Turnover continued to indicate that dealers were enjoying half-term holidays with their children, with only 714.3m shares traded by the 6pm count. The value of customer business on Tuesday was just £1.3bn, despite the boost from the Southern Water bid.

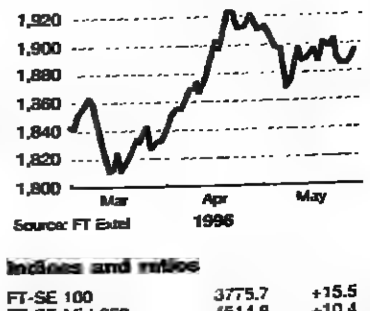
Few analysts are taking an aggressive line on the market's likely direction. Mr Tim Brown, market strategist at UBS, said: "The market feels very bank holidayish. There does not seem to be a vast amount of turnover. People are sitting on their hands and waiting to see what happens next. They have enough cash to feel apprehensive about selling equities and the political background is making them apprehensive about buying."

The latest note on the UK market from Goldman Sachs says that "hopes for another base rate cut are receding following indications of optimism among consumers which contrasts with continuing, but thankfully not worsening, gloom among manufacturers".

Mr Paul Walton, Goldman's UK strategist, still thinks that political risk will cause the Footsie to fall to 3,400 by the year-end but, in the short term, he says: "An equity market stuck in the 3,650 to 3,850 range now seems the most likely outcome."

However, Mr Corey Miller, who recently joined Credit Lyonnais Laing as a strategist, sees some optimistic signs, pointing out that the prospective price/earnings ratio on the London market is an undemanding 14.

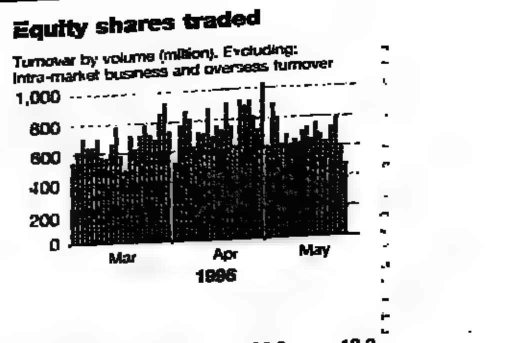
FT-SE-A All-Share index



Source: FT Extel

Equity shares traded

Turnover by volume (million). Excluding: Intra-market business and overseas turnover



Indices and ratios

FT-SE 100	3775.7	+15.5
FT-SE Mid 250	4514.8	+10.4
FT-SE-A 350	1911.7	+7.1
FT-SE-A All-Share	1896.29	+6.40
FT-SE-A All-Share yield	3.77	3.78

FT Ordinary index	2806.9	+13.3
FT-SE-A Non Fins p/e	16.94	16.91
FT-SE 100 Fut Jun	3785.0	+21.0
10 yr Gilt yield	8.06	8.04
Long gilt/equity yld ratio:	2.22	2.21

Best performing sectors

1 Water .... +4.8
2 Gas Distribution .... +3.7
3 Utilities .... +1.8
4 Telecommunications .... +1.2
5 Alcoholic Beverages .... +1.1

Worst performing sectors

1 Oil : Integrated .... -0.8
2 Mineral Extraction .... -0.7
3 Building Mats .... -0.4
4 Engineering .... -0.3
5 Extractive Inds .... -0.2

Rival bid buoys waters

Blood is thicker than water and the prospect of a bloody bid battle duly pumped the water sector higher yesterday.

Southern Electric confounded the expectation of some analysts by topping Scottish Power's bid for Southern Water. The regional electricity group's counter-offer, worth £1.6bn, not only raises the heat in the bid war but lifts the temperature throughout the sector.

Insiders say Southern Electric, which has had its expansionist dreams shattered so many times before, has to succeed and is prepared to pay up to £15 a share for Southern Water if the battle goes that far.

Scottish Power is probably ready to go the distance as well, but all investors are aware that there is bound to be a loser somewhere along the line.

Consequently, although sector valuations have been lifted by the takeover war, there will be more to come. One argument being touted was that PowerGen, thwarted in its ambitions to taker over another rec, could plausibly bid for Severn Trent.

Elsewhere, Wessex is seen as a rational target, as is Anglian, the east of England water authority, which released top of the range figures and a big dividend increase.

Southern Electric dipped an additional 19 to 707p in acknowledgment of the heavy price that it will have to pay. Meanwhile, Scottish Power bounced 6 to 325p and Southern Water added a further 46 at 987p.

Among the other takeover candidates within the sector, Thames gained 35 at 599p, the biggest rise in the Footsie. It was closely followed by Severn Trent, up 34 to 595p in turnover of 4.8m.

The second line index was topped by Yorkshire, which jumped 68 to 758p. Wessex, which rose 28 to 360p, and Anglian, up 27 at 599p, with an additional lift from well received figures.

Lucas recovers

Motor engineer Lucas Industries, a dull market lately on talk of "take profits" advice from a leading broker, recovered a penny after another energetic two-way pull for the stock.

Friday's announcement that Lucas's talks with Varity, of the US, were progressing well was said to have been interpreted by one City engineering team to be something of a sell signal, on the basis that Lucas was heading for an outright merger.

A merger, so the story went, could well be what Lucas has in mind to rule out the long vaunted hostile bid for the group. A deal with Varity would put Lucas "out of play".

However, the stock clawed back a penny to 234p in 3.4m volume. "If anyone is keen to buy Lucas, they will simply be waiting to see what sort of deal is planned with Varity before making a move," said Mr Zafar Khan, analyst at SGST.

BT in demand

The recovery in sentiment at telecoms giant BT gathered pace and the shares surged strongly for the second day running in solid volume.

Two weeks ago, the stock was all about a tough-talking regulator and the shares slid to a 52-week low of 326¼p. But recent feed-back from the industry suggests that Oftel is in a more conciliatory mood than was earlier suspected.

"The message we are getting is that Oftel does not want confrontation. This makes BT's 7 per cent yield look a good buy," said one leading sector watcher.

Oftel's price cap proposals are due to be announced shortly, possibly on Monday. BT moved up 8¼ to 348½p in 8.9m traded, for a two-day gain of more than 4 per cent.

Mobile phones group Vodafone put on 5 at 258p ahead of next Tuesday's annual results.

British Gas bounced 7 to 184¼p, with dealers pointing the finger at HSBC James Capel which, they said, had decided that the stock was oversold. Capel was unavailable for comment.

Oil majors dipped on the back of weaker oil prices, selling in New York, and caution ahead of the next Opec meeting, which begins on June 5. BP shed 5 to 562½p and Shell Transport 8 to 930½p.

British Airways added 3 at 568p as sentiment improved ahead of next week's traffic returns for May. Partly as a result of unfavourable Easter timing, the airline achieved disappointing traffic flows in April, but hopes have begun to run high for a much improved outturn next Wednesday.

Eurotunnel rallied on news that the group had stepped into the thick of the cross-Channel price war.

The Channel tunnel operator is drastically reducing its shuttle prices, and the stock put on 2 at 87p. Turnover in London was negligible, but reached 4.2m shares in Paris.

The view among analysts is that the group is simply matching the sort of discounts offered by the ferry groups. P&O ended all square at 528p.

AIM newcomer Prism Rail stormed to 205p on first day dealings. The stock was floated at 100p.

Cadbury Schweppes was ahead 10½ at 488½p on the back of a couple of brokers changing their stance. Strauss Turnbull was said to have turned more positive, after being a seller for the past six months.

In the breweries, pubs and restaurants sector, Bass continued its unabated rise since its recent results, adding 10 at 819p. Compass Group, which has been making presentations to institutions, put on 6 at 567p.

Grand Metropolitan rose 5 to 446p, one analyst saying the stock was cheap, with the market beginning to take on board the fact that a substantial part of its business was not spirits, but foods, and that there were cogent arguments for a demerger. Guinness firmed 6 to 476p.

Sears relinquished 2½ at 93½p following critical media reports concerning the shops it sold to Facia. One analyst said that if the deal went wrong, it might increase speculation about a management shake-up at Sears.

Storehouse shed 3 to 321p. Its results last week were in line with expectations but one analyst claimed there were a lot of marketmakers with stock.

Vendome, the luxury group, strengthened 16 to 645p on speculation that Richemont, which owns 70 per cent of the group, might mop up the remaining 30 per cent.

JJB Sports leapt 45 to 900p, a move which was attributed to a "buy" note from Charterhouse Tilney Securities, its broker.

A profits warning lopped almost 8 per cent off electronics components distributor Abacus Polar. The stock ended off 19 at 220p. Kalamazoo Computers surged 28 to a new 52-week high of 143p following an acquisition and news of a placing to partly finance the deal.

Software group Recognition Systems bounced to a strong first day premium. Floated at 70p, the shares closed at 110p.

MARKET REPORTERS:
Peter John, Lisa Wood, Jeffrey Brown.

FINANCIAL TIMES EQUITY INDICES

	May 29	May 28	May 24	May 23	May 22	Yr ago	*High	*Low
Ordinary Share	2806.9	2793.6	2785.5	2787.0	2799.0	2507.7	2865.2	2698.7
Ord. div. yield	3.97	3.98	3.99	3.98	3.97	4.26	4.06	3.76
P/E ratio net	16.28	16.22	16.19	16.21	16.28	15.88	17.25	15.96
P/E ratio nil	16.06	16.01	15.97	15.99	16.06	15.64	17.08	15.76

Ordinary Share index since compilation: high 2865.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2787.5	2790.2	2797.0	2799.2	2799.9	2800.9	2801.0	2801.4	2805.1	2807.1	2786.8

	May 29	May 28	May 24	May 23	May 22	Yr ago
SEAQ bargains	33,698	33,835	31,158	32,573	34,111	22,201
Equity turnover (£m)†	-	1306.2	1703.2	2187.5	2266.5	1199.3
Equity bargains†	-	39,912	37,310	39,102	41,641	32,289
Shares traded (mil)†	-	474.3	602.1	760.2	735.7	536.2

†Excluding intra-market business and overseas turnover.

	May 29	May 28	May 24	May 23	May 22	Yr ago	*High	*Low
FT-SE AIM	1096.20	1101.10	1094.20	1091.30	1089.30	-	1094.50	995.66

*For 1996.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	505	Total Highs	133	Total contracts	34,960
Total Falls	666	Total Lows	29	Calls	19,796
Same	1,596			Puts	15,164

May 29 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	3756.0	3785.0	+21.0	3798.0	3752.0	9727	52324
Sep	3763.0	3793.0	+21.0	3792.0	3781.5	434	10354
Dec	3800.0	3822.0	+21.0	3811.0	3800.0	80	727

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		4525.0	+10.0			0	4141

■ FT-SE 100 INDEX OPTION (LIFFE) (*3778) £10 per full index point

	3600 C	3600 P	3650 C	3650 P	3700 C	3700 P	3750 C	3750 P	3800 C	3800 P	3850 C	3850 P	3900 C	3900 P	3950 C	3950 P
Jun	189	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	200½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	209	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	232	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec†	281½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Calls 11,912 Puts 5,415

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	3625 C	3625 P	3675 C	3675 P	3725 C	3725 P	3775 C	3775 P	3825 C	3825 P	3875 C	3875 P	3925 C	3925 P	3975 C	3975 P
Jun	165	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jul	178½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Aug	181	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	211½	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec†	289	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Calls 803 Puts 1,606 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	44.2	101	101	AIM Trust	101					
100	F.P.	76.5	105	100	Aberforth Smlr C	102					
-	F.P.	135.5	745	677¼	Atlantis Japan	683	-8½				
-	F.P.	-	175	123	Biocompatible Unit	130					
105	F.P.	12.8	124	118	†CA Coutts	118					
-	F.P.	[illegible]	91	36	†Emtech	73					
-	F.P.	23.5	118	98	†Epic Multimedia	101	-8				
-	F.P.	23.0	97½	92	Gartmore Select	92					
-	F.P.	1.51	65	60	†Hercules Prop	60	-8				
-	F.P.	26.3	101	50	INVESCO E & I C	101					
-	F.P.	6.30	5½	3¼	†Just Group	5					
150	F.P.	51.3	150	153	†La Senza	153	-2				
200	F.P.	42.0	294	252	Luminar	280	-1	L6.0	2.2	2.7	15.8
-	F.P.	116.1	280	220	Maiden Group	280	-2	R4.8	-	2.1	-
-	F.P.	35.9	222	161	†Mulberry Group	181	-5				
-	F.P.	3.10	143	133	Premiere Group	133		L6.0	2.4	5.6	9.2
-	F.P.	26.6	235	160	†Prism Rail	205					
190	F.P.	2.72	229	205	Railtrack	214½	-½	W20.6	2.6	6.4	7.4
70	F.P.	29.7	110	103	Recognition Sys	110					
-	F.P.	9.21	98	43	†Reflec	90	-3				
-	F.P.	24.5	99	95	Renaissance US G	95					
-	F.P.	15.9	105	95	Schroder Venture	105					
72	F.P.	7.98	113	75	†Stentor	113	+10				
-	F.P.	-	97	35	Taiwan Inv Tst C	96					
-	F.P.	29.2	15	7¼	†Thomas Potts	14	-1				
-	F.P.	2.99	55	43	†Tom Hoskins	53					
400	F.P.	122.3	633	598	Vanguard Medica	615					

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	May 29	% chg on day	May 27	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	2317.24	+0.7	2301.46	1916.73	1.32	-	2593.73	1722.93
■ Regional Indices								
Africa (13)	3112.47	+1.3	3073.61	2533.69	2.31	43.68	3553.86	2272.74
Australasia (6)	2590.01	+0.4	2578.83	2261.77	2.54	28.91	2927.34	2098.51
North America (12)	2052.93	+0.5	2043.44	1695.07	0.66	72.19	2188.39	1489.94

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FT - SE Actuaries Share Indices — The UK Series

	May 29	Day's chge%	May 28	May 24	May 23	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3775.7	+0.4	3760.2	3752.1	3747.0	3319.4	4.00	2.16	14.48	78.35	1541.01
FT-SE Mid 250	4514.8	+0.2	4504.4	4490.0	4501.4	3653.8	3.34	1.76	21.42	82.92	1809.43
FT-SE Mid 250 ex Inv Trusts	4555.5	+0.3	4543.7	4527.1	4539.9	3663.0	3.44	1.80	20.21	88.03	1828.83
FT-SE-A 350	1911.7	+0.4	1904.6	1900.0	1898.1	1650.3	3.85	2.08	15.62	36.66	1594.81
FT-SE-A 350 Higher Yield	1841.3	+0.6	1830.1	1820.6	1818.0	1570.8	5.10	1.93	12.74	46.05	1283.67
FT-SE-A 350 Lower Yield	1982.4	+0.2	1978.4	1980.0	1978.6	1629.2	2.71	2.36	19.89	31.56	1376.10
FT-SE SmallCap	2230.92	+0.1	2229.06	2223.89	2226.87	1880.73	2.91	1.77	24.36	27.98	1627.40
FT-SE SmallCap ex Inv Trusts	2226.38	-0.1	2227.88	2230.57	2233.85	1840.47	3.08	1.86	21.87	29.37	1635.14
FT-SE-A ALL-SHARE	1896.29	+0.3	1889.89	1885.87	1885.24	1632.98	3.77	2.06	16.07	37.16	1606.51

■ FT-SE Actuaries All-Share

	May 29	Day's chge%	May 28	May 24	May 23	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(24)	3503.65	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
12 Extractive Industries(6)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
15 Oil, Integrated(3)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
16 Oil Exploration & Prod(16)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
20 GEN INDUSTRIALS(275)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
21 Building & Construction(34)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
22 Building Matls & Merchs(28)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
23 Chemicals(23)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
24 Diversified Industrials(19)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
25 Electronic & Elect Equip(37)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
26 Engineering(71)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
27 Engineering, Vehicles(13)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
28 Paper, Pckg & Printing(26)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
29 Textiles & Apparel(18)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
30 CONSUMER GOODS(93)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
32 Alcoholic Beverages(6)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
33 Food Producers(22)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
34 Household Goods(13)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
36 Health Care(20)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
37 Pharmaceuticals(12)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
38 Tobacco(1)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
40 SERVICES(253)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
41 Distributors(32)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
42 Leisure & Hotels(29)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
43 Media(45)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
44 Retailers, Food(15)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
45 Retailers, General(45)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
47 Breweries, Pubs & Rest.(24)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
48 Support Services(40)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
49 Transport(21)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
60 UTILITIES(33)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
62 Electricity(12)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
64 Gas Distribution(2)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
66 Telecommunications(7)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
68 Water(12)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
69 NON-FINANCIALS(669)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
70 FINANCIALS(105)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
71 Banks, Retail(8)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
72 Banks, Merchant(6)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
73 Insurance(23)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
74 Life Assurance(6)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
77 Other Financial(21)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
79 Property(41)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
80 INVESTMENT TRUSTS(125)	3229.17	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
89 FT-SE-A ALL-SHARE(899)	1896.29	+0.3	1889.89	1885.87	1885.24	1632.98	3.77	2.06	16.07	37.16	1606.51
FT-SE-A Fledgling	1272.63	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FT-SE-A Fledgling ex Inv Trusts	1284.92	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3752.5	3758.1	3762.4	3765.1	3765.1	3765.0	3766.1	3767.1	3775.3	3775.8	3751.7
FT-SE Mid 250	4506.4	4508.6	4513.6	4515.6	4516.3	4515.0	4516.0	4515.8	4514.2	4516.7	4505.4
FT-SE-A 350	1901.7	1903.2	1905.3	1906.1	1907.6	1907.9	1908.0	1908.1	1911.5	1911.7	1901.5

Time of FT-SE 100 Day's high: 4:15 PM Day's low: 8:34 AM. FT-SE 100 1996 High: 3857.1 (19/04/96) Low: 3632.3 (23/01/96).

■ FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	1188.4	1187.0	1188.3	1190.7	1192.7	1188.5	1188.1	1187.7	1187.5	1187.7	1182.6	+5.1
Pharmaceuticals	4995.5	5003.1	5008.8	5008.3	5003.4	5001.8	5001.5	5002.0	5026.4	5024.7	5027.3	-2.6
Water	2231.8	2233.7	2277.6	2268.7	2282.0	2275.6	2282.8	2261.9	2274.9	2274.9	2167.8	+106.8
Banks, Retail	3995.3	3991.1	3999.7	4003.2	4005.5	4008.3	4007.5	4005.6	4023.3	4021.9	3989.7	+32.2

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues.

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i	[illegible]	[illegible]	[illegible]
ASDA Group†	[illegible]	[illegible]	[illegible]
Abbey National†	[illegible]	[illegible]	[illegible]
Albert Fisher	[illegible]	[illegible]	[illegible]
Allied Domecq†	[illegible]	[illegible]	[illegible]
Anglian Water	[illegible]	[illegible]	[illegible]
Argos	[illegible]	[illegible]	[illegible]
Argyll Group†	[illegible]	[illegible]	[illegible]
Arjo Wiggins	[illegible]	[illegible]	[illegible]
Assoc. Brit. Foods†	[illegible]	[illegible]	[illegible]
Assoc. Brit. Ports	[illegible]	[illegible]	[illegible]
BAA†	[illegible]	[illegible]	[illegible]
BAT Inds.†	[illegible]	[illegible]	[illegible]
BET	[illegible]	[illegible]	[illegible]
BICC	[illegible]	[illegible]	[illegible]
BOC†	[illegible]	[illegible]	[illegible]
BPB	[illegible]	[illegible]	[illegible]
BSkyB†	[illegible]	[illegible]	[illegible]
BTR†	[illegible]	[illegible]	[illegible]
Bank of Scotland†	[illegible]	[illegible]	[illegible]
Barclays†	[illegible]	[illegible]	[illegible]
Bass†	[illegible]	[illegible]	[illegible]
Blue Circle†	[illegible]	[illegible]	[illegible]
Booker	[illegible]	[illegible]	[illegible]
Boots†	[illegible]	[illegible]	[illegible]
Bowater	[illegible]	[illegible]	[illegible]
Brit. Aerospace†	[illegible]	[illegible]	[illegible]
British Airways†	[illegible]	[illegible]	[illegible]
British Biotech	[illegible]	[illegible]	[illegible]
British Gas†	[illegible]	[illegible]	[illegible]
British Land	[illegible]	[illegible]	[illegible]
British Steel†	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FT-SE 100 index constituent. All trades are rounded. Source: FT Extel.

Tongyang Nylon Co., Ltd.

(Incorporated in the Republic of Korea with limited liability)

Notice of Bondholders' Additional Option to Redeem Bonds on 10th July, 1998
and
Right to Revoke Notices of Redemption

To the Holders of the Company's

U.S. $30,000,000

3¼ per cent. Convertible Bonds due 2005

(the "Bonds")

(Redeemable at the option of the Bondholders in 1996)

NOTICE IS HEREBY GIVEN that Tongyang Nylon Co., Ltd. (the "Company") has, pursuant to Condition 12(B) of the Bonds and with the agreement of Bankers Trustee Company Limited, the trustee for the Bondholders (the "Trustee"), amended the Terms and Conditions of the Bonds by a Supplemental Trust Deed dated 29th May, 1996 and entered into by the Company and the Trustee. The Company and the Trustee have amended the Terms and Conditions of the Bonds to: (i) provide for an additional put option exercisable on 10th July, 1998 at the price referred to below plus accrued interest; (ii) amend the terms of the call option to extend the period during which it remains conditional upon the closing price of the shares of the Company and to incorporate protection for Bondholders against fluctuations in the Won/U.S. Dollar exchange rate; (iii) allow those Bondholders who have exercised their option to redeem Bonds on 10th July, 1996 to revoke such exercise on or prior to 5th July, 1996 in the manner described below; and (iv) allow the Company, at its option, to purchase such Bonds that are being requested to be redeemed by the Bondholders pursuant to their option to redeem Bonds.

The price at which the 1998 put option will be exercisable will be calculated by the Company in accordance with the following formula:

$$P2 = (1+r)^2 \times \left(P1 + \left(C \times \frac{190}{360}\right) - \frac{\frac{C}{1+r} + C}{(1+r)^{\left(\frac{SCP}{360}\right)}}\right) - SC$$

Where:

P2 = 1998 Put Price (rounded up, if necessary, to the nearest three decimal places).
P1 = 1996 Put Price (which equals 127.80 per cent.).
C = Full Coupon.
SCP = The number of days from the 1996 Put Date (10th July, 1996) to the next Coupon date.
SC = Short Coupon to be paid on the 1998 Put Date (on 10th July, 1998).
r = (y + s) to be calculated on a 360 days per year basis as described in Rule 251.1 and Rule 803.1 of the Rules and Recommendations of the International Securities Market Association (or any substitute or successor thereof) and expressed as a percentage.
s = Spread of 0.72 per cent.
y = Yield on the Reference 2 year U.S. Dollar LIBOR swap rate.

The Yield on the Reference 2 year U.S. Dollar LIBOR swap rate for the purposes of y above will be determined by Daewoo Securities Co., Ltd. on the following basis:

(a) The "Yield" will be the offered 2 year U.S. Dollar LIBOR swap rate which appears on the display designated "GOTX" on the Reuters monitor (or such other page or service as may replace it for the purpose of displaying the offered yields on such Reference 2 year U.S. Dollar LIBOR swap rate) for the first quotation in the Reference 2 year U.S. Dollar LIBOR swap rate occurring on or after 10:00 a.m. (Hong Kong time) on the Determination Date.

(b) "Determination Date" means 5th July, 1996.

The Company has also agreed that once Daewoo Securities Co., Ltd. has calculated the percentage of principal amount at which Bonds will be redeemed on 10th July, 1998 in accordance with the formula set out in Condition 7(D) of the Bonds, the Company will give notice to Bondholders of such percentage in accordance with Condition 14 of the Bonds as soon as reasonably possible after 5th July, 1996 but in any event, not later than the fifth London business day thereafter.

Bondholders who have exercised their option to have Bonds redeemed on 10th July, 1996 and who wish to revoke such exercise may do so by delivering written notification to the Paying Agent with whom the relevant notice of redemption and sale was deposited at any time no later than 5:30 p.m. (local time of the city where the relevant Paying Agent is located) (at the place of the specified office, as set out below, of the relevant Paying Agent) on 10th July, 1996.

The Company will be unable to redeem Bonds at its option prior to 1st January, 1999, unless the Closing Price of the Shares for each of 20 consecutive trading days, the last of which occurs not more than 30 days prior to the date upon which notice of such redemption is published: (i) is greater than 140 per cent. of the Closing Price in effect on such trading day; (ii) when converted into U.S. Dollars on each of such 20 consecutive trading days (such conversion to be at the mean of the exchange rate quotations by Korea Financial Telecommunications & Clearings Institute in Seoul for buying and selling spot U.S. Dollars against Won in respect of each such trading day), is greater than 140 per cent. of the Conversion Price in effect on such trading day converted into U.S. Dollars (such conversion to be at the rate of Won 727.40 = U.S. $1.00) and (iii) is greater than the 1998 Put Price (as defined in Condition 7(D)) multiplied by the Conversion Price in effect on such trading day.

The term "Closing Price" for any trading day means the last selling price or, if no sale takes place on such day, the closing bid or offered price in either case as reported by the Korea Stock Exchange for such day or, if the Shares are not listed or admitted to trading on the Korea Stock Exchange, the average of the closing bid and offered prices of the Shares for such day as furnished by an independent member firm of the Korea Stock Exchange selected from time to time by the Company for the purpose and approved by the Trustee. If there shall occur an event giving rise to a change in the Conversion Price during any such 20 trading day period, appropriate adjustments for the relevant days approved by the Trustee shall be made for the purpose of calculating the Closing Price for such days. The term "trading day" means a day when the Korea Stock Exchange is open for business. If no price as aforesaid is reported on the Korea Stock Exchange (or furnished by a member firm as aforesaid) for one or more consecutive trading days, such day or days will be disregarded in the relevant calculation and will be deemed not to have existed when ascertaining such 20 trading day period.

It is for Bondholders to decide whether the 1998 Put Price adequately compensates them for deciding not to exercise their option to require the Company to redeem or, at the option of the Company, to purchase all or some only of the Bonds held by them on the 1996 Put Date.

All Bondholders contemplating taking any action in respect of the matters contained in this notice should seek independent advice as to their tax position and, if in any doubt, should also seek independent financial advice.

Copies of the First Supplemental Trust Deed which implements the above amendments are available at the specified offices of each of the Paying Agents set out below.

Paying Agents

Bankers Trust Company	Bankers Trust Luxembourg S.A.	Swiss Bank Corporation
1 Appold Street	P.O. Box 807	1 Aeschenvorstadt
Broadgate	14 Boulevard F.D. Roosevelt	CH-4002 Basle
London EC2A 2HE	L-2450 Luxembourg	Switzerland

30th May, 1996 — Issued by: Tongyang Nylon Co., Ltd.

هكذا من الأصل

WORLD STOCK MARKETS

EUROPE

AUSTRIA (May 29 / Sch)

BELGIUM/LUXEMBOURG (May 29 / Frs.)

CZECH REP (May 29 / Korona)

DENMARK (May 29 / Kr)

FINLAND (May 29 / Mkk)

FRANCE (May 29 / Frs.)

GERMANY (May 29 / Dm.)

GREECE (May 29 / Drachma)

ITALY (May 29 / Lira)

NETHERLANDS (May 29 / Fls.)

NORWAY (May 29 / Kroner)

POLAND (May 29 / Zloty)

PORTUGAL (May 29 / Escudo)

SPAIN (May 29 / Pta.)

SWEDEN (May 29 / Kronor)

SWITZERLAND (May 29 / Frs.)

TURKEY (May 29 / Tk Lira)

PACIFIC

JAPAN (May 29 / Yen)

HONG KONG (May 29 / H.K.$)

INDONESIA (May 29 / Rupiah)

MALAYSIA (May 29 / MYR)

NEW ZEALAND (May 29 / NZ $)

SINGAPORE (May 29 / S$)

AUSTRALIA (May 29 / Aust$)

SOUTH KOREA (May 29 / Won)

TAIWAN (May 29 / TW $)

THAILAND (May 29 / Baht)

AFRICA

SOUTH AFRICA (May 29 / Rand)

NORTH AMERICA

CANADA

TORONTO (May 29 / Can $)
4 pm close

MONTREAL (May 29 / Can $)
4 pm close

INDICES

	May 29	May 28	May 27	1996 High	1996 Low
Argentina					
General(29/12/77)	(u)	18604.79	18499.15	18881.55 20/5	15539.81 19/3
Australia					
All Ordinaries(1/1/80)	2264.2	2262.7	2261.1	2329.00 29/4	2187.40 11/3
All Mining(1/1/80)	1076.3	1072.4	1070.4	1118.40 8/5	1004.70 16/1
Austria					
Credit Aktien(30/12/84)	392.74	393.00	(c)	394.34 22/5	352.78 2/1
Traded Index(2/1/91)	1139.37	1142.51	(c)	1142.51 28/5	976.27 2/1
Belgium					
BEL20(1/1/91)	1769.02	1773.26	(c)	1773.26 28/5	1574.80 2/1
Brazil					
Bovespa(29/12/83)	(u)	57108.0	56260.0	57108.00 28/5	43901.00 2/1
Canada					
Metals Mnls♦(1975)	(u)	5390.58	5411.02	5624.69 8/5	4687.47 16/1
Composite♦(1975)	(u)	5219.31	5235.50	5239.80 22/5	4739.70 15/1
Portfolio§§(4/1/83)	(u)	2556.32	2565.55	2565.55 27/5	2327.39 12/1
Chile					
IGPA Gen♥(31/12/80)	(u)	5409.12	5437.37	5804.33 9/1	5216.28 8/4
Denmark					
CopenhagenSE(3/1/83)	405.71	407.07	(c)	407.07 28/5	368.40 2/1
Finland					
HEX General(28/12/90)	2014.64	2044.96	2056.05	2056.05 27/5	1651.67 10/1
France					
SBF 250(31/12/90)	1449.92	1458.83	(c)	1458.83 28/5	1250.16 2/1
CAC 40(31/12/87)	2117.10	2132.80	(c)	2146.79 30/4	1887.85 11/1
Germany					
FAZ Aktien(31/12/58)	901.55	902.02	(c)	904.93 23/5	818.58 2/1
Commerzbank(1/12/53)	2588.2	2591.7	(c)	2601.80 23/4	2370.20 2/1
DAX‡(30/12/87)	2551.45	2558.30	(c)	2570.76 21/5	2284.86 2/1
Greece					
Athens SE(31/12/80)	915.65	918.83	915.08	1017.98 4/3	901.03 29/4
Hong Kong					
Hang Seng(31/7/64)	11200.56	11107.02	11081.69	11594.99 16/2	10204.87 2/1
India					
BSE Sens.(1979)	3740.45	3636.01†	3653.10	3869.87 24/4	2826.08 25/1
Indonesia					
Jakarta Comp.(10/8/82)	622.48	620.98	620.67	630.21 24/4	512.48 2/1
Ireland					
ISEQ Overall(4/1/88)	2533.91	2526.54	2530.00	2547.29 21/5	2234.61 2/1
Italy					
Banca Comm Ital(1972)	669.81	669.66	663.77	674.10 20/5	572.21 23/3
MIB General(2/1/96)	1135.0	1135.0	1125.0	1142.00 20/5	970.08 27/3
Japan					
Nikkei 225(16/5/49)	22021.50	21944.53	21899.76	22282.05 24/4	19734.70 13/3
Nikkei 300(1/10/82)	310.40	309.50	308.59	319.06 26/4	284.48 11/3
Topix(4/1/68)	1680.86	1675.23	1668.44	1718.80 26/4	1524.12 13/3
2nd Section(4/1/68)	2211.37	2196.40	2187.19	2243.28 2/5	1982.76 14/3
Malaysia					
KLSE Comp.(4/4/86)	1137.95	1141.88	1140.70	1169.54 30/4	993.18 2/1
Mexico					
IPC(Nov 1978)	(u)	3315.36	3327.24	3362.88 22/5	2736.35 8/3
Netherland					
CBS TtlRtnGen(End 83)	644.3	646.3	(c)	646.30 28/5	539.50 2/1
CBS All Shr(End 83)	382.2	383.6	(c)	383.60 28/5	326.70 2/1
New Zealand					
Cap. 40(1/7/86)	2042.09	2048.96	2059.46	2203.06 4/1	2042.09 29/5
Norway					
Oslo SE(Ind)(2/1/83)	1436.57	1428.58	(c)	1444.72 29/4	1259.86 30/1
Philippines					
Manila Comp(2/1/85)	3285.06	3247.76	3258.10	3285.06 29/5	2578.97 2/1
Portugal					
BVL 30(4/1/93)	1877.50	1873.06	1877.58	1888.89 23/5	1602.81 2/1
Singapore					
SES All-S'pore(2/4/75)	589.71	589.79	589.01	610.37 5/2	553.88 2/1
South Africa					
JSE Gold(28/9/78)	2030.4♥	2011.8	1984.1	2030.40 29/5	1346.40 2/1
JSE Ind.(28/9/78)	7912.3♥	7867.4	7794.7	8738.39 25/1	7723.28 20/5
South Korea					
KoreaCompEx‾(4/1/80)	894.32	906.21	920.43	986.84 7/5	838.87 13/3
Spain					
Madrid SE(30/12/85)	364.14	365.01	363.79	365.81 28/5	323.75 11/1
Sweden					
AffarsvarldenGen(1/2/37)	1976.6	1987.9	(c)	2005.50 20/5	1708.80 22/1
Switzerland					
Swiss Bk Ind(31/12/58)	1725.90	1735.43	(c)	1779.54 28/4	1518.19 17/1
SBC General(1/4/87)	1219.01	1226.47	(c)	1259.89 29/4	1114.47 26/1
Taiwan					
WeightedPr.‾(30/6/66)	5876.43	5859.54	5898.45	6182.78 29/4	4690.22 6/2
Thailand					
Bangkok SET(30/4/75)	1302.40	1308.20	1311.20	1415.04 8/2	1247.78 13/3
Turkey					
Istanbul Comp.(Jan 1986)	60414.8	58076.4	58752.4	72086.86 8/4	38779.39 2/1
WORLD					
MS Capital IntS(1/1/70)	(u)	776.3*	776.8	780.30 22/5	725.80 15/1
CROSS-BORDER					
Eurotrack 100(26/10/90)	1692.00	1699.17	(c)	1699.17 28/5	1504.40 11/1
Euro Top-100(26/6/90)	1445.60	1449.22	1442.98	1458.28 26/4	1333.81 11/1
HSBC JC Drgn(31/12/88)	(u)	377.69	378.52	383.16 16/4	344.19 2/1
ING Brngs Emrg(7/1/92)	(u)	161.54	161.59	164.14 14/5	147.35 2/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
■ CAC-40 (200 x index)							
May	2130.0	2133.5	+14.5	2142.0	2129.0	10,951	22,185
Jun	2111.0	2113.0	+14.5	2120.5	2109.0	7,552	42,391
■ DAX							
Jun	2560.0	2554.0	-8.50	2560.0	2547.5	11,017	-
Sep	2578.0	2572.0	-12.0	2578.0	2569.0	213	-
■ OMX							
May	1556.00	1545.50	-13.0	1556.00	1543.50	1,688	16,615
■ SOFFEX							
Jun	3549.0	3530.0	-22.0	3553.0	3523.0	3,798	27,458
Jul	3551.0	3533.0	+8.90	3551.0	3530.0	141	2,808

‾ Sat May 25: Taiwan Weighted Price 5909.41; Korea Comp Ex 911.76. Base values of all indices are 100 except Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL 30, SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 28 Industrials – 264.3, NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: May 29 - 2548.53 -10.62.

US INDICES

Dow Jones	May 28	May 24	May 23	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	5702.67	5762.86	5762.12	5778.00 (22/5)	5032.94 (10/1)	5778.00 (22/5/96)	41.22 (8/7/32)
Home Bonds	101.89	101.56	101.67	108.09 (14/2)	101.19 (8/5)	108.77 (18/10/93)	54.99 (1/10/81)
Transport	2262.53	2275.84	2280.79	2298.20 (22/5)	1882.71 (18/1)	2298.20 (22/5/96)	12.32 (8/7/32)
Utilities	212.34	214.92	213.57	234.00 (12/2)	205.42 (7/5)	256.48 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 5798.69 (5815.88) Low 5680.48 (5722.59) (Theoretical♣)
Day's high 5783.91 (5788.72) Low 5697.85 (5745.13) (Actual♣)

Standard and Poors							
Composite‡	672.23	678.51	676.00	678.51 (24/5)	598.48 (10/1)	678.51 (24/5/96)	4.40 (1/6/32)
Industrials♥	800.10	807.32	805.00	807.32 (24/5)	702.07 (15/1)	807.32 (24/5/96)	3.62 (21/6/32)
Financial	67.11	68.00	67.67	68.56 (6/3)	58.67 (10/1)	68.56 (6/3/96)	8.64 (1/10/74)
NYSE Comp.	360.52	363.74	362.43	363.74 (24/5)	321.41 (10/1)	363.74 (24/5/96)	4.46 (25/4/42)
Amex Mkt Val	610.77	613.95	612.88	614.99 (22/5)	528.05 (18/1)	614.99 (22/5/96)	29.31 (9/12/72)
NASDAQ Cmp	1236.30	1247.81	1248.65	1248.66 (23/5)	988.57 (15/1)	1248.66 (23/5/96)	54.87 (31/10/72)

■ RATIOS

	May 24	May 17	May 10	Year ago
Dow Jones Ind. Div. Yield	2.15	2.17	2.20	2.53
	May 22	May 15	May 8	Year ago
S & P Ind. Div. yield	1.83	1.86	1.92	2.21
S & P Ind. P/E ratio	22.71	21.98	21.26	18.77

■ NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
K-Mart	8,407,700	11⅛	+⅛
LSI Logic	6,240,600	29	-¾
Wal-Mart	5,438,800	25½	+¼
Bay Network	4,212,200	30	+⅛
Philip Morris	4,089,500	100	-3½
Coca Cola	3,995,700	46	-1⅜
Micron Tech	3,690,100	31⅛	+¾
Amer T & T	3,279,000	63⅛	+¾
Singer	3,271,000	20⅜	-5⅛
Tel Brasileir	2,738,900	63¼	+2½

■ TRADING ACTIVITY

● Volume (million)

	May 28	May 24	May 23
New York SE	341.095	331.287	434.850
Amex	24.814	34.178	33.589
NASDAQ	668.722	626.131	778.830
NYSE			
Issues Traded	3,170	3,122	3,161
Rises	784	1,168	996
Falls	1,592	1,059	1,333
Unchanged	794	895	832
New Highs	78	107	182
New Lows	31	23	21

	Open	Latest	Change	High	Low	Est. vol.	Open Int.
■ S&P 500							
Jun	673.55	673.50	-0.30	676.10	673.50	68,931	172,966
Sep	680.30	679.55	-	680.80	679.55	4,782	22,742

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
■ Nikkei 225							
Jun	21950.0	22030.0	-20.0	22170.0	21880.0	24,471	265,098
Sep	22050.0	22060.0	-20.0	22230.0	21980.0	12,686	63,992

Open interest figures for previous day.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♣ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

■ TOKYO - MOST ACTIVE STOCKS: Wednesday, May 29, 1996

	Stocks Traded	Closing Prices	Change on day
Kanematsu Corp	22.6m	750	+20
Clarion	9.8m	535	+25
Chori	7.8m	575	+17
Mitsubishi Hvy	7.1m	942	+9
Bk Tk-M'bishi	6.7m	2590	+60
Kobe Steel	6.3m	301	-2
Tokyu Land Corp	5.7m	590	+24
Keisei Elect Ry	5.6m	1190	+50
Daiichi Kgyo B	5.3m	1810	
Fujita Corp	4.8m	590	+62

Prices supplied by Telekurs

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are based on data from Jan 1 1996. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

NEW YORK STOCK EXCHANGE PRICES

4 pm close May 29

1996 High	1996 Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
23¾	19⅛	AAR	0.48	2.2	24	108	22½	22	22	-⅛
46⅛	36⅜	AMP	1.00	2.3	21	2758	42⅞	42½	42⅝	
97½	68	AMR			23	4542	95⅜	93½	95	+1¼
50½	37⅜	ASA x	1.80	4.1	29	258	44⅜	44⅛	44¼	-⅛
44¾	38⅛	AbbtL	0.96	2.3	19	8326	42¾	42⅛	42⅛	-¼
17¾	13⅜	Abitibi Pr	0.40	2.9	7	156	13⅞	13¾	13¾	-⅛
36	27	ABM Ind	0.70	2.0	18	122	35⅛	35	35	
17¼	13⅞	Acptncsln			45	351	u17¼	16⅞	17⅛	+¼
50⅜	37¾	ACE Ltd	0.56	1.1	11	1453	49¼	48¾	49¼	+¾
9⅞	8⅛	ACM Gvt In	0.90	9.2	8	343	u9⅞	9¾	9¾	
7⅞	6¾	ACM GvOpp	0.57	8.3		73	7	6⅞	6⅞	-⅛
7¼	6¼	ACM Gvt Sp	0.66	10.2		252	6½	6⅜	6½	
9⅛	8¼	ACM Gvt Se	0.90	10.4		113	8⅝	8½	8⅝	
9½	8¾	ACM Man	0.90	10.0		174	9⅛	9	9	
30¾	16½	AcmeClv	0.52	1.7	7	302	30⅛	30⅛	30⅛	
13⅞	6⅛	Acme Elect			63	212	12	11½	11½	-⅜
32½	27¾	Acordia	0.72	2.3	19	32	31⅞	31¾	31¾	-⅛
21⅜	12	Acuson			65	1698	19⅛	18⅛	19⅛	
19½	18⅜	Adams Expr x	1.66	8.6	0	563	19¼	19⅛	19¼	+⅛
21¼	16⅛	AdvMic			7	5984	18	17⅜	17⅜	-¼
11⅛	8½	Advest Grp	0.16	1.5	7	29	10¾	10⅝	10⅝	-¼
26⅛	9⅛	Advo Inc	0.10	0.9	60	167	11	10⅞	10⅞	
50⅜	41⅛	Aegon	1.23	2.5	15	20	48⅞	48⅝	48⅞	-⅛
6¾	3½	Aerflx			4	685	6¼	6⅛	6⅛	+⅛
78¾	66⅜	AetnaL	2.76	3.8	19	4794	74⅛	73⅜	73⅜	-⅝
33	28¾	Aflac x	0.40	1.3	13	2358	31⅛	30¾	31	-⅛
20⅜	17½	AGL Res	1.06	6.1	15	216	17¾	d17½	17½	-⅛
26¾	21¼	Ahmnsn	0.88	3.4	7	1532	25⅞	25½	25⅝	-⅜
60⅞	50⅛	AirPrC	1.10	1.8	18	4685	u60⅞	59½	59⅞	+½
28⅜	23½	Airbrne Frt	0.30	1.2	23	1102	26⅛	25½	25½	-¾
22½	15½	Airgas Inc			35	500	21¾	21⅛	21⅛	-⅜
18⅞	15	Airlease	2.00	11.9	10	57	16⅞	16⅝	16¾	+⅛
33⅝	25⅝	AirTch			104	5590	31⅞	31⅜	31⅜	-¼
30¾	15⅞	Alaska Air	0.20	0.7	13	432	27½	27¼	27⅜	+⅛
22⅝	17¼	Albany Int	0.40	2.0	13	611	19⅞	19½	19¾	+¼
24⅛	17¼	Albert	0.22	1.0	8	221	23½	22⅝	22⅝	-1⅛
43¾	32½	AlbCuB	0.36	0.9	19	82	40⅛	39¼	39⅜	-½
38⅞	29⅝	AlCulvr A	0.36	1.0	17	337	35⅛	34½	34⅝	-⅛
40½	31½	Albtsn	0.60	1.5	20	3118	40¼	39½	39⅝	-⅛
34⅛	28⅜	AlcnAl x	0.60	1.9	13	2164	32⅝	32¼	32⅜	
66	37⅞	AlcoSt x	0.56	0.9	33	1891	63½	61⅝	62	-1⅛
60½	39⅛	AlexBrown	0.80	1.4	7	262	59⅜	58	58⅜	-⅜
21⅝	17⅞	AlexAl	0.10	0.5	25	248	20¾	20¼	20½	-¼
21⅜	17⅜	Allegh Lud x	0.52	2.6	12	3773	20⅝	19⅞	20	-⅜
30⅞	28	AllegP	1.68	5.6	16	715	29⅞	29¾	29¾	
28⅞	18⅛	Allen Con	0.20	0.7	24	791	27⅞	27⅛	27⅛	
39¾	30⅝	Allergan x	0.48	1.3	33	595	39¼	38¼	38⅜	-⅜
25¾	21⅜	Allnce Cap x	1.93	8.1	11	363	24¼	23⅞	23⅞	
13½	10	Allnce Gl	0.18	1.4		349	13⅜	13¼	13¼	
34⅝	29¾	Ald Irish	1.23	3.9	9	4	31⅝	31½	31½	+¼
60⅜	47⅛	AldSig x	0.80	1.6	17	11256	57½	55	55½	-1⅞

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4 pm close May 29

NYSE PRICES

1996 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
Continued from previous page										
63¾	50½	SchrPl	1.32	2.3	23	5096	59⅞	58⅝	58⅝	-⅛
91½	65⅞	Schlmb	1.50	1.8	30	9507	86	84⅝	84⅞	-1⅝
14½	9⅞	Scitkr			3	675	11⅝	11⅝	11⅝	+⅛
27⅞	18⅝	Schwab(C)	0.16	0.6	24	1693	24¾	24⅜	24⅜	
28⅞	22¾	SchwMaud			14	577	28½	27⅝	27⅞	-⅝
20⅞	13⅛	SciAtl	0.06	0.3	48	1788	19⅛	18⅞	19	-⅛
21	17	Scotman	0.10	0.5	12	2100	21	21	21	
45	38⅛	Scrippc x	0.52	1.2	28	510	45	44¾	45	+¼
16⅛	14½	ScuddrNAsF	0.02	0.1		209	15¼	15	15	+⅛
12½	11	ScuddrNEuF	0.16	1.3		415	12⅜	12¼	12¼	
19¼	16	SeaCtB	0.70	3.7	2	30	18⅞	18⅞	18⅞	
16	15	SeaC1.4625	1.46	9.7		5	15	015	15	-⅛
67¾	44¾	S'gate			22	6202	60¼	58¼	59⅛	-⅞
38⅞	31¾	Seagrm	0.60	1.7	23	5888	35⅛	34½	34½	-⅞
24⅞	17⅛	Seagull En			15	311	23	22¾	22¾	-¼
38½	26	Sealed Air			26	1218	36¼	35¼	35¼	-1
53¼	38¼	SearsR x	0.92	1.8	14	14850	51¼	50⅞	51	+⅛
22⅞	19¼	SecCapSBI	1.24	5.6	22	1309	22¼	22⅛	22¼	
13	11⅞	Seligm Sel x	0.84	6.6		13	12¾	12¾	12¾	-⅛
22¾	13⅞	Sensormat	0.22	1.2	15	2225	18⅛	17½	18	+½
37½	29½	SequaA	0.60	1.6	98	43	u37½	37¼	37½	+¼
42¾	39	SequaB	0.50	1.2	107	12	41	40¾	40¾	-¼
57⅛	38⅞	SerCp	0.48	0.9	25	2135	56¼	54⅝	55	-⅞
33½	29⅛	SrvMstr	1.02	3.1	14	223	32⅞	32½	32⅝	
6	4½	ServMerch			11	2992	5⅝	5½	5½	-⅛
48¼	28½	SGSThm			9	1361	42¼	40¼	45⅞	-⅛
15⅞	10⅝	Shaw Ind	0.30	2.3	39	2689	13⅜	13	13⅛	
12⅞	10⅝	Shelby Wll	0.28	2.4	14	2	11½	11½	11½	
87	76⅝	ShellTr	3.25	3.8	17	212	86	85⅝	85⅞	-⅛

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NASDAQ NATIONAL MARKET

4 pm close May 29

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AMEX PRICES

4 pm close May 29

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AMERICA

Search for direction leaves Dow volatile

Wall Street

US stocks spent a volatile morning after Tuesday's fall, searching for direction, *writes Maggie Urry in New York.*

The Dow Jones Industrial Average, which had fallen by as much as 23 points by mid-morning, rallied then slipped back once again. By 1 pm the Dow was just below 5,700, off 9.98 at 5,699.69.

The Standard & Poor's 500 held on to a rise of 0.49 at 672.72 by midsession. However, the American Stock Exchange composite rallied less strongly and was still 0.69 lower at 610.08. Similarly, the Nasdaq composite was off its low, but still 3.45 weaker at 1,232.85.

Volume on the NYSE was relatively light at 187m shares.

Dealers said that a number of programme trades hit blue chips in the morning, but the selling pressure had eased by lunchtime.

The sudden death of Mr Jerry Junkins, chairman and chief executive of Texas Instruments, did not affect the shares, which gained $¼ to $54¾, continuing the strength they had shown on Tuesday, when they had added $3.

Hewlett-Packard firmed $⅝ to $105⅛ after the computer group announced that it would start shipping a new line of pentium based net servers in July.

Meanwhile, shares of Sun Microsystems fell $2 to $62 in spite of a series of announcements for new uses for Sun's Java technology (Java is a language used for Internet applications).

Sun said that it had agreed an alliance with Taiwan to allow companies there to use Java. It also said that it would develop a new line of Java chips, and that four of the people responsible for developing Java were forming a new company which would extend the language's uses.

Also in the technology area, Dell Computer announced an increase to its share buyback programme from 12m to 16m shares, and said that it had already bought 3.5m shares and options to buy another 5.3m. The shares rose $1¼ to $52½.

General Nutrition, the health products retailer, plunged $4½, or 24.3 per cent, to $14, reacting to a profits warning made after the market had closed on Tuesday. The group said that second-quarter earnings would be around 19 cents, against forecasts of 21 cents, while third and fourth-quarter earnings would be slightly below estimates as well.

Canada

Toronto was steady as golds flattened out again, the TSE 300 composite index easing 0.79 to 5,218.52 at midday and volume coming back from 53.84m shares to 41.15m.

Financials reflected good bank results, Bank of Novia Scotia gaining 80 cents at C$33.10 after its record second quarter net profits.

Seagram, in contrast, fell 90 cents to C$47.50 as earnings, adjusted to exclude its former stake in Du Pont, fell from 16 cents a share to 6 cents for the quarter to April 30.

SOUTH AFRICA

Equities in Johannesburg moved to their third consecutive closing high as better than expected money supply and CPI data for April encouraged investors. The overall index rose 17.4 to 6,767.2, while the industrials index gained 44.9 at 7,912.3 and golds made 18.6 to 2,030.4. Among the main movers, SAB advanced R1.50 to R128.

Profits taken in Latin America

Profit-taking was much in evidence throughout the region early yesterday. In **MEXICO CITY** the IPC index was off 20.60 to 3,294.75 at midsession.

SAO PAULO, which on Tuesday had risen by 1.5 per cent, was another market in decline, and by midday the Bovespa index had lost 330.28 to 56.728. Most of the session's profit-taking was in Telebras, which had gained nearly 3 per cent on Tuesday. Telebras was responsible for 57 per cent of the trading volume.

BUENOS AIRES was slightly weaker, with the Merval index down 0.57 at 610.50.

In **CARACAS** the IBC index had surrendered 53.27 or 1.1 per cent to 4,486.02 by early afternoon. The market slipped 0.3 per cent on Tuesday following nine successive record highs.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms: May 24 1996	Dollar terms: % Change over week	Dollar terms: % Change on Dec '95	Local currency terms: May 24 1996	Local currency terms: % Change over week	Local currency terms: % Change on Dec '95
Latin America	(247)	532.36	-0.1	+12.9			
Argentina	(31)	925.21	-1.9	+15.5	567,294.59	-1.9	+15.4
Brazil	(68)	349.13	-0.3	+14.4	1,301.66	-0.2	+17.2
Chile	(43)	715.39	-1.9	-4.4	1,168.35	-2.2	-4.2
Colombia[1]	(15)	629.36	-0.6	+5.2	1,191.78	-0.3	+13.6
Mexico	(65)	558.93	+1.6	+23.3	1,784.03	+1.7	+18.5
Peru[2]	(20)	208.13	+1.6	+5.9	307.03	+1.7	+10.5
Venezuela[3]	(5)	541.24	+7.6	+61.9	5,832.33	+8.6	+123.4
Asia	(631)	266.62	-0.8	+14.8			
China[4]	(23)	58.03	+1.2	+7.3	60.99	+1.2	+7.3
South Korea[5]	(145)	123.53	-3.6	-1.9	126.90	-3.4	-1.2
Philippines	(35)	313.41	+2.3	+20.8	396.25	+2.4	+20.5
Taiwan, China[6]	(83)	134.50	-2.2	+19.3	138.50	-1.5	+19.9
India[7]	(76)	99.97	-2.9	+24.4	124.62	-2.2	+24.2
Indonesia[8]	(44)	126.31	-1.0	+15.2	159.99	-1.0	+17.4
Malaysia	(123)	321.41	-0.4	+18.5	295.43	-0.4	+16.3
Pakistan[9]	(25)	290.17	+0.9	+19.6	459.17	+0.9	+21.8
Sri Lanka[10]	(5)	109.61	-0.4	+5.3	131.56	-0.3	+8.8
Thailand	(72)	370.31	-0.8	-1.5	372.45	-0.6	-0.9
Euro/Mid East	(236)	136.86	-2.5	-3.4			
Czech Rep	(5)	74.53	-0.9	+24.2	88.56	-0.3	+28.9
Greece	(47)	241.54	-1.9	+0.0	398.98	-1.1	+3.1
Hungary[11]	(8)	162.30	-1.4	+64.9	292.50	-0.4	+80.8
Jordan	(8)	175.17	-0.1	-5.1	261.59	-0.1	-5.1
Poland[12]	(22)	626.19	-8.3	+48.9	1,061.57	-7.4	+60.3
Portugal	(26)	124.43	+1.3	+7.5	135.47	+2.1	+14.0
South Africa[13]	(63)	229.71	-1.7	-11.0	206.92	-0.7	+6.5
Turkey[14]	(54)	122.78	-8.9	+17.5	4,530.72	-7.3	+51.6
Zimbabwe[15]	(5)	367.52	+2.0	+41.1	560.99	+2.0	+48.8
Composite	(1116)	302.03	-1.0	+9.5			

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991; (2)Dec 31 1992; (3)Jan 5 1990; (4)Dec 31 1992; (5)Jan 3 1992; (6)Jan 4 1991; (7)Nov 6 1992; (8)Sep 28 1990; (9)Mar 1 1991; (10) Dec 31 1992; (11)Dec 31 1993; (12)Dec 31 1992; (13)Dec 31 1992; (14)Dec 31 1992; (15)Aug 2 1993; (16) July 2 1993.

Emerging markets have outperformed US Treasury bonds since the beginning of 1996 and, in spite of expectations that US interest rates will rise during the third quarter of the year, Paribas Capital Markets believes that strong economic fundamentals should see this investment sector continue to do well. In a strategy report out earlier this week, Paribas also notes that a key event this year has been the successful issue of a 30-year Mexican global bond which was swapped for Brady bonds. "The deal signals the beginning of a fundamental change for emerging markets," says Paribas, "and its success and that of the 15-year D-Mark bond launched by Argentina in early May, proves there is demand for uncollateralised long term emerging market risk."

● Egypt has attracted a positive recommendation from Robert Fleming Securities this week. The broker suggests that on a price/earnings ratio of eight times 1995 earnings, Egyptian equities appear very inexpensive in comparison to other emerging markets. In addition, the market is about to undergo one of the largest privatisation programmes in the Middle East, and has the lowest level of foreign investment among emerging markets as a group. "The expected inclusion in the IFC index, privatisation, healthy corporate earnings growth, and attractive valuation, are already attracting foreign investment, which in turn will create upward pressure on prices," says Fleming.

● Brazil has been selected by Bear Stearns as its favourite market in Latin America for the rest of the year. The US investment bank said that it was raising its year-end target for the Bovespa index to 62,500, while the index could move through the 75,000 level during 1997. "The key short term risks are a further deterioration of the global financial market background, additional setbacks in the political reform process, and a disappointment over the pace of economic growth in 1996," notes Bear Stearns.

EUROPE

Interest rate worries hit Swiss financials

Most financials fell in **ZURICH**, brokers worrying that a drop in domestic bonds implied the prospect of higher interest rates. Rumours about a possible downgrading of SBC and CS Holding by a rating agency also contributed to negative sentiment as the SMI index lost 25.4 at 3,558.4.

SBC lost SFr4.50, or 2 per cent, at SFr221, UBS registered fell SFr5 to SFr254, and Zurich Insurance shed SFr4 to SFr324 although it talked about double-digit growth in profits, until and including 1999. Among second liners, Merkur registered leapt SFr12 to SFr268 as the retail and consumer goods conglomerate forecast recovery in 1996.

PARIS, unsettled by technical activity, was hit by profit-taking and the CAC-40 index fell 15.80 to 2,117.10. Since the beginning of the year the index had risen by more than 14 per cent. Turnover was FFr4.2bn.

Bouygues, the construction company, was lifted after a number of brokers raised their recommendations on the stock, partly based on yesterday's launch of a new mobile telephone service, and partly on a feeling that the shares were now trading at a discount to the market. The stock ended FFr9 higher at FFr549.

Eurotunnel was also among the session's leaders, up 35 centimes or 5.2 per cent at FFr7.10, after the cross-Channel operator made a number of announcements, including a revised pricing structure for Le Shuttle services.

The company added that it did not consider that it would be impossible to reach a draft agreement with its 225 creditor banks on a debt restructuring package by the end of June.

FRANKFURT daydreamed about a repo rate cut, failed to get it and resorted to pushing vulnerable stocks around as the Dax index fell 10.62 to an Ibis-indicated 2,548.53.

Turnover stayed low at DM6.5bn, against DM6.1bn, but it was positively tiny in Krupp Hoesch and Kloeckner Werke, which lost DM5 at DM242 and DM1 at DM54 respectively.

The two engineers had been weaker earlier in the afternoon, Kloeckner falling 9 per cent at one point: Ms Lynn Reinhardt at BZW in Frankfurt said that with KHD still suspended, following Tuesday's news of crippling losses at one subsidiary, there had been speculative reaction elsewhere in the engineering sector.

However, Preussag was busy as it dropped DM10.50 to DM398.50. Here, said Ms Reinhardt, there had been a rumour that first-half results were imminent: covering October to March, a bad time for steel prices, they were thought likely to be poor.

FT-SE Actuaries Share Indices

THE EUROPEAN SERIES

May 29 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1695.45	1694.45	1695.03	1695.53	1693.92	1692.77	1692.62	1692.00
FT-SE Eurotrack 200	1731.54	1732.04	1732.64	1732.50	1732.37	1731.46	1731.10	1732.47

	May 28	May 24	May 23	May 22	May 21
FT-SE Eurotrack 100	1699.17	1688.85	1690.78	1687.92	1696.84
FT-SE Eurotrack 200	1734.50	1723.81	1726.13	1728.13	1740.29

Base value 1000 (26/10/90) High/day: 100 - 1696.23; 200 - 1734.67 Low/day: 100 - 1691.65 200 - 1728.60. † Partial

AMSTERDAM could not hold on to an early high as profits were taken following the market's strong recent run. The AEX index, which rallied to 570.09 at one stage, closed off 1.38 at 566.72.

Fortis Amev fell Fl 4 to Fl 130, subject to profit-taking although the insurer attracted a number of upgrades following the healthy first-quarter group data which was released on Tuesday. ING, for instance, said that the 23 per cent increase in first-quarter profit had laid the foundation for double-digit growth over the full year.

Nutricia, which fell 3 per cent on Tuesday in reaction to fears that its baby milk products might be investigated as part of a UK government enquiry, lost 30 cents to Fl 180.20, after a high of Fl 182.

The company, which sells Cow & Gate and Milupa brands in the UK, confirmed yesterday that its infant formulae have been tested for traces of phthalates, but said that the levels did not exceed European Union safety standards.

ING finished 90 cents up at Fl 136.70, after a session's high of Fl 138.80, ahead of the bank's first-quarter figures due out today.

MILAN saw the return of overseas interest as institutional buyers became captivated by Eni, the oil and chemicals group, which rose L241 or 3.3 per cent to L7,495. The Mibtel index gained 1 per cent to L10,733, while the Comit was up 0.15 at 669.81.

HELSINKI reacted to Wall Street's overnight losses, took profits, and pushed the Hex index down 30.32, or 1.5 per cent, to 2,014.64, Nokia A losing DM6.40, or 3.3 per cent, at FM188.60.

The paper machine maker Valmet reported higher than forecast four-month earnings but closed just 50 penni up at FM75 after a record FM80.

VIENNA encountered some profit-taking, having attained a 21-month high on Tuesday, but many traders felt that the decline was temporary and that the underlying trend remained strong. The ATX index lost 3.14 to 1,139.37.

An exception to the day's fortunes was VA Stahl, the steel maker, which rose Sch6 to Sch387, a record peak.

HSBC James Capel in London, which has a buy recommendation on the stock, said the group was a beneficiary of having stable contract prices, compared with many other suppliers which were linked to fluctuations in the spot market. In addition, Stahl was able to obtain its raw materials relatively cheaply from sources in eastern Europe, thus cutting transport costs. Since its listing in October 1995, the stock had risen 18 per cent.

ISTANBUL climbed by 4 per cent as sentiment took an upward turn after Mr Mesut Yilmaz, the prime minister, said that he would not resign. The composite index gained 2,338.36 at 60,414.81.

WARSAW managed to claw its way forward, having fallen for the previous six sessions, but many analysts felt that the gain was only temporary.

The Wig index rose 20.2 to 11,875.9 as turnover increased by 4.3 per cent to 89m zlotys.

Written and edited by William Cochrane and John Pitt

ASIA PACIFIC

Property auction improves activity in Japan

Tokyo

A rally in the property sector lifted trading as the Nikkei average broke through the 22,000 level, *writes Emiko Terazono in Tokyo.*

The 225 index rose 76.97 to 22,021.50 after moving between 21,877.21 and 22,145.20. Technical buying supported equities in early trading and, while profits were taken later, bargain hunting by domestic institutions provided support.

Volume was 483m shares, against 334m. The Topix index of all first section stocks rose 5.63 to 1,680.86 and the Nikkei 300 firmed 0.90 to 310.40. Advances led falls by 622 to 421, with 173 issues unchanged.

In London the ISE/Nikkei 50 index put on 4.08 at 1,467.32.

Trading centred on property issues ahead of the auction of the large plot of land in central Tokyo belonging to the former Japan National Railway, which was broken up in 1987.

Investors, hoping that the property sale could spur demand for new development projects and construction, bought real estate developers. Daikyo rose Y100 to Y881 and Tokyu Land Y34 to Y590. Contractors were also chased, with Taisei climbing Y15 to Y809 and Shimizu Y40 to Y1,240.

High-technology stocks lost ground on profit-taking, foreign brokers leading the selling: Hitachi fell Y30 to Y1,010 and Fujitsu Y10 to Y990. Consumer electronics companies were mixed, Matsushita Electric Industrial rising Y20 to Y1,860 and Sony dipping Y40 to Y6,870.

The yen's decline helped shipping: Nippon Yusen rose Y4 to Y628 and Mitsui OSK Lines gained Y8 to Y372.

In Osaka, the OSE average moved ahead 159.25 to 23,334.49 in volume of 52.7m shares.

Roundup

Strong speculative demand, selective foreign fund buying and the argument that equities had been heavily oversold took **BOMBAY** up 2.9 per cent, the BSE 30-share index adding 104.44 at 3,740.45.

The shortlived, minority Hindu nationalist government resigned on Tuesday. Brokers said that the market attracted hectic short-covering ahead of the weekend swearing-in of the United Front government, a loose, centre-left coalition.

SEOUL saw selling across the board, export-driven sectors falling steeply as the composite index relinquished 11.89 to 894.32 after the release of worse than expected industrial output and current account deficit data.

The chipmaker Samsung Electronics fell by its daily limit again, closing Won4,200 lower at Won67,300, pressured by falling international prices of memory chips.

SINGAPORE and **KUALA LUMPUR** extended recent themes: Singapore Telecom topped the active list for the third consecutive day as it rose 2 cents to S$3.92, although the Straits Times Industrial index declined 22.43 to 2,334.42; and Pacific Bank gained another 50 cents to M$12.90 as the Rating Agency Malaysia put its short term rating on hold ahead of the bank's proposed merger with OCBC's Malaysian unit.

The KLSE composite index ended 4.03 lower at 1,137.95. This market's star turn, however, was a newcomer, the brick and tile maker Kia Lim, which finished at M$9.25, compared with its offer price of M$1.90.

WELLINGTON continued to lose support as the NZSE-40 capital index retreated 4.87 to 2,042.09, just ahead of the year's low of 2,041.21 which had been touched in late January. Turnover was light at NZ$31m.

Radio Pacific appreciated 32 cents to NZ$3.52 on rumours of a takeover bid.

BANGKOK slipped back as worries emerged about the future direction of the economy under the newly appointed finance minister. There were also rumours that the governor of the central bank might resign and the SET index receded 6.00 to 1,302.20 in volume of 66.2m shares valued at Bt4.9bn.

There was little acclaim for good first-quarter profits from Siam Cement. The stock moved forward Bt12 to Bt1,204. Siam City Cement, which reported a 39 per cent decline in profits, was Bt12 weaker at Bt336.

MANILA, encouraged by expectations of strong economic growth data, recovered from Tuesday's profit-taking. The composite index finished 37.30 ahead at 3,285.06.

There were rumours that first-quarter GNP statistics, due to be released this morning, would show a rise greater than analysts' projections.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	TUESDAY MAY 28 1996: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY MAY 27 1996: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 52 week High	52 week Low	Year ago (approx)
Australia (80)	206.86	0.5	202.78	142.04	166.51	173.15	0.0	4.24	205.94	201.82	140.17	165.03	173.08	212.18	162.68	167.75
Austria (25)	190.74	0.5	186.98	130.97	153.54	153.43	0.9	1.83	189.84	186.04	129.21	152.13	152.04	199.28	168.11	196.39
Belgium (27)	210.25	-0.2	206.11	144.37	169.24	164.99	0.3	4.04	210.61	206.40	143.35	168.78	164.56	215.81	186.06	197.53
Brazil (28)	170.82	1.2	167.45	117.29	137.50	313.17	1.1	2.07	168.80	165.43	114.89	135.27	309.66	171.06	123.97	142.09
Canada (98)	163.38	-0.5	160.16	112.18	131.51	162.77	-0.4	2.34	164.14	160.86	111.72	131.54	163.39	164.64	134.14	140.63
Denmark (30)	295.19	-0.3	289.37	202.69	237.61	240.03	0.2	1.87	296.04	290.11	201.49	237.23	239.63	305.17	275.65	287.44
Finland (23)	194.83	-0.9	190.99	133.78	156.83	194.89	-0.7	2.56	196.58	192.65	133.80	157.53	196.32	276.11	171.73	214.68
France (97)	195.19	0.2	191.35	134.03	157.12	160.34	0.6	2.99	194.78	190.88	132.57	156.09	159.38	198.39	167.70	186.28
Germany (60)	167.87	0.1	164.56	115.26	135.12	135.12	0.5	1.85	167.74	164.39	114.17	134.42	134.42	174.38	153.83	156.12
Hong Kong (59)	435.71	0.2	427.12	299.17	350.72	432.82	0.3	3.29	434.67	425.97	295.85	348.32	431.69	451.19	348.81	366.56
Ireland (15)	276.31	-0.4	270.86	189.72	222.41	249.87	-0.2	3.43	277.30	271.75	188.74	222.21	250.34	280.08	226.91	228.80
Italy (59)	82.35	0.0	80.72	56.54	66.29	95.83	-0.1	2.29	82.37	80.73	56.07	66.01	95.95	84.53	67.22	74.10
Japan (481)	154.24	0.1	151.19	105.90	124.15	105.90	0.9	0.72	154.15	151.06	104.92	123.53	104.92	164.68	137.75	154.65
Malaysia (107)	556.86	-0.3	545.88	382.36	448.24	535.46	0.0	1.67	558.37	547.19	380.04	447.45	535.51	565.09	425.77	540.28
Mexico (18)	1309.82	0.1	1284.00	899.36	1054.33	10566.69	-0.3	1.34	1308.88	1282.68	890.85	1048.87	10596.26	1325.65	791.99	948.04
Netherland (19)	295.60	0.2	289.77	202.97	237.94	233.61	0.6	3.07	295.04	289.13	200.81	236.43	232.18	295.60	245.79	250.11
New Zealand (15)	78.61	-0.6	77.06	53.98	63.28	60.93	-0.7	4.51	79.07	77.49	53.82	63.37	61.37	85.49	76.26	82.34
Norway (35)	246.57	0.1	241.71	169.30	198.48	221.57	0.5	2.05	246.37	241.44	167.68	197.43	220.57	255.75	221.17	225.91
Singapore (44)	419.46	-0.4	411.19	288.01	337.64	273.13	-0.2	1.39	421.02	412.59	286.56	337.39	273.62	465.21	355.81	400.46
South Africa (45)	354.39	0.4	347.41	243.34	285.27	340.44	1.1	2.12	352.98	345.92	240.25	282.88	336.57	437.76	338.91	344.76
Spain (37)	178.36	0.1	174.85	122.47	143.57	174.04	0.4	3.19	178.16	174.59	121.26	142.77	173.32	179.85	145.15	149.03
Sweden (48)	348.68	0.0	341.81	239.42	280.67	352.23	0.0	2.29	348.57	341.59	237.24	279.33	352.39	356.08	255.80	259.46
Switzerland (38)	230.82	-0.4	226.26	158.49	185.79	182.35	0.4	1.62	231.70	227.06	157.70	185.67	181.70	252.34	191.24	198.16
Thailand (46)	178.76	0.0	175.24	122.74	143.89	175.90	0.1	1.88	178.76	175.18	121.67	143.25	175.74	193.95	146.74	168.32
United Kingdom (201)	230.72	0.2	226.17	158.42	185.71	226.17	0.2	4.09	230.34	225.73	156.78	184.58	225.73	237.43	210.29	215.78
USA (626)	273.74	-0.9	268.34	187.96	220.34	273.74	-0.9	2.15	276.24	270.71	188.01	221.36	276.24	276.24	214.27	214.27
Americas (771)	250.14	-0.9	245.21	171.75	201.35	210.29	-0.9	2.15	252.32	247.27	171.73	202.20	212.12	252.40	196.45	196.55
Europe (715)	207.79	0.1	203.69	142.67	167.26	185.30	0.3	3.03	207.67	203.51	141.34	166.41	184.72	211.35	187.00	188.88
Nordic (136)	299.24	-0.1	293.34	205.47	240.87	265.63	-0.1	2.23	299.63	293.63	203.94	240.11	265.75	302.70	248.38	252.82
Pacific Basin (832)	167.62	0.1	164.32	115.10	134.93	117.31	0.8	1.17	167.51	164.16	114.01	134.24	116.41	177.01	148.86	164.15
Euro-Pacific (1547)	184.25	0.1	180.62	126.51	148.31	143.05	0.6	2.05	184.14	180.45	125.33	147.56	142.28	190.57	166.51	174.35
North America (725)	266.90	-0.9	261.64	183.26	214.84	266.27	-0.9	2.16	269.30	263.91	183.29	215.81	268.68	269.33	209.70	209.70
Europe Ex. UK (514)	190.10	0.0	186.35	130.53	153.02	160.65	0.4	2.46	190.10	186.29	129.39	152.34	160.04	192.67	168.29	170.09
Pacific Ex. Japan (351)	291.48	0.1	285.74	200.14	234.63	251.27	0.1	3.03	291.19	285.36	198.19	233.34	251.09	296.68	243.59	256.23
World Ex. US (1737)	185.63	0.1	181.97	127.46	149.42	147.58	0.5	2.05	185.51	181.80	126.26	148.66	146.78	191.55	167.36	174.87
World Ex. UK (2162)	211.13	-0.4	206.96	144.97	169.94	179.52	-0.1	1.90	211.99	207.75	144.29	169.88	179.72	213.05	180.73	183.83
World Ex. Japan (1882)	245.31	-0.5	240.47	168.43	197.46	233.71	-0.4	2.50	246.49	241.55	167.77	197.52	234.62	246.49	204.89	205.37
The World Index (2363)	212.93	-0.4	208.74	146.21	171.40	183.90	-0.1	2.09	213.70	209.42	145.45	171.25	184.06	214.70	183.83	186.63

Latest prices were unavailable for this edition.